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## **MOODY´S ELEVA EL RATING DE REPSOL YPF**

- Aumenta a Baa1 desde Baa2
- Valora positivamente el Plan Estratégico de la compañía
- Apunta la posibilidad de mejoras de calificación a medio plazo

La agencia internacional de calificación Moody´s ha elevado el rating de Repsol YPF a Baa1 desde Baa2. Moody´s basa esta decisión en el sólido perfil financiero adquirido por Repsol YPF, la estrategia de diversificación de activos seguida por la dirección de la compañía, sustentada en la fuerte generación de caja producida por los negocios de refino y marketing en España, y la mejora gradual de las operaciones en Argentina.

Moody´s considera en su mejora de calificación la valoración positiva del Plan Estratégico 2005-2009 anunciado hace dos semanas por Repsol YPF, basado en una fuerte generación de caja de sus operaciones en Argentina y en la mayor diversificación de sus activos gracias a las inversiones en Trinidad y Tobago, Argelia, Libia y Oriente Medio.

Para la agencia internacional de calificación crediticia resultan especialmente significativos los esfuerzos realizados por Repsol YPF para: conseguir una mayor diversificación geográfica; impulsar una mejora en la tasa de reemplazo de sus reservas; aumentar el nivel de integración, especialmente a través de los proyectos de GNL; preservar la fuerte generación de caja del área de refino y marketing por el aumento de su capacidad de conversión; y mantener una prudente política de capital y reducción de deuda.

Moody´s subraya que las muestras de éxito de la estrategia desarrollada por Repsol YPF, junto con la mayor estabilidad del entorno económico en Argentina, pueden conducir a futuras mejoras del rating de Repsol YPF en el medio plazo.

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**MOODY'S UPGRADES REPSOL YPF'S SENIOR UNSECURED RATINGS TO Baa1, STABLE OUTLOOK. YPF'S SENIOR UNSECURED RATINGS UPGRADED TO Ba3, DOMESTIC CURRENCY TO Baa2**

Moody's Investors Service has today upgraded various ratings connected to Repsol YPF S.A., as well as its Argentina-based subsidiary YPF S.A. The following ratings were affected by today's rating actions:

- Repsol YPF issuer rating upgraded to Baa1 from Baa2
- Repsol International Finance B.V. senior unsecured ratings upgraded to Baa1 from Baa2
- Repsol International Capital Limited preferred stock ratings upgraded to Baa3 from Ba1
- YPF senior unsecured rating upgraded to Ba3 from B1
- YPF domestic currency issuer rating upgraded to Baa2 from Baa3
- Maxus Energy senior unsecured rating (guaranteed by YPF) upgraded to Ba3 from B1

YPF's foreign currency issuer rating of Caa1 remained unchanged, as it is constrained by the sovereign ceiling of Argentina. YPF's Corporate Family Rating (formerly known as the senior implied rating) is aligned with the foreign currency issuer rating at Caa1. Repsol's short-term rating also remained unchanged at Prime-2. All ratings now have a stable outlook.

Moody's last rating action on Repsol YPF was on 24<sup>th</sup> June 2004, when it changed the outlook from stable to positive.

Moody's upgrade follows Repsol's ongoing maintenance of a solid financial profile and supportive liquidity, management's stated strategy to broaden the group's asset diversification, sustained strong

positions and cash generation from the group's Spanish refining and marketing business, and gradual improvements in Argentina's operating environment, despite ongoing macroeconomic challenges.

At the same time, ratings remain constrained by the group's still high, albeit reducing, asset exposure to Argentina, which in 2004 represented 65% of Repsol's total production of 1.17 million barrels of oil equivalent (boe) per day, close to 50% of its 4.9 billion boe in reserves and 48% of the group's EUR 3.97 billion of operating profit. Ratings also remain constrained by Repsol's recently weak reserve replacement, largely the result of the mature nature of its Argentinean reserves, the group's wider exposure to South America, including approximately 25% of total reserves in politically tumultuous Bolivia, and the execution risk attached to some of its growth strategy, which contains a greater reliance on exploration activities.

Moody's notes that Repsol's ratings incorporate the group's recently published five-year strategic plan to 2009, which is based on sustaining strong cash generation from its Argentinean operations, while at the same time investing predominantly in Trinidad & Tobago, Algeria, Libya and the Middle East to diversify its asset base. Although some of the group's future reserve growth is scheduled to be derived from higher-risk exploration activities, Moody's takes comfort from the good pipeline of especially LNG-related projects, which should help support Repsol's recently low reserve replacement ratios. Over the next five years, Repsol plans to invest over USD 1.9 billion into Algeria and Libya to increase its net production in the region. Repsol also plans to spend around USD 980 million developing the two-train 14bcm p.a. capacity Persian LNG project in Iran and expects the first train of the Gassi Touil LNG plant in Algeria to be operational by 2009. Train 4 of Repsol's flagship LNG liquefaction asset, Atlantic LNG, is due to come on stream by the end of 2005.

Moody's adds that both Repsol YPF's and YPF's financial profiles have continued to improve, with management having further reduced consolidated debt at year-end 2004, and the group's Argentinean subsidiary is now virtually net debt free. This leaves them in a strong financial position to withstand further potential shocks in Argentina, generating sound cash flow to debt and interest coverage and cushioned by robust liquidity. Moody's also factors into its ratings management's aim to maintain solid financial ratios on an ex-Argentina basis in the unlikely event that it should lose access to cash flows from YPF. In Moody's view, both Repsol's financial and business risk profile on an ex-Argentina basis would still justify solid investment grade ratings, given Repsol's strong refining position in Spain, the business's solid cash flows and overall manageable debt levels. Nonetheless,

Moody's adds that Repsol's access to YPF's cash flows has been unimpaired throughout the economic crisis in the region.

The upgrade of YPF's ratings in particular are supported by the subsidiary's fully integrated profile, its low operating costs, which Moody's expects however to rise in line with sector-wide cost inflation and the appreciation of the peso, and its strong financial profile.

Going forward, Moody's views Repsol's revised five year strategy as largely supportive of its ratings, given (1) the efforts to increase geographic diversification from presently high upstream concentration in Argentina, (2) initiatives aimed at improving historically weak reserve replacement and curbing declining production from its mature Argentinean assets, (3) increasing the level of integration, particularly via LNG projects, (4) moderate downstream investments aimed at preserving the cash generation strength of its domestic refining by further improving conversion capacity and (5) maintaining a prudent capital structure with ongoing efforts to reduce debt. Signs of successful execution of Repsol's strategy, together with a further stabilisation of the operating environment in Argentina, could further benefit ratings over the medium term.

In addition, Moody's would anticipate Repsol to maintain its retained cash flow (RCF) to net adjusted debt ratio above 30% and funds from operations (FFO) to cover interest 9-10 times, while achieving group-wide through-cycle reserve replacement ratios of more than 100% to consider a further upgrade of Repsol's ratings into the 'A' category. Moody's also expects Repsol to maintain its leverage (including preference shares) within its 35-45% band at all times. Any material acquisitions, none of which are anticipated by Moody's, would likely require equity contributions, as Moody's will expect Repsol to sustain its currently strong debt protection ratios and liquidity in counterbalance of its higher risk business profile.

Repsol YPF, headquartered in Madrid, Spain, is a major oil and gas company with a strong downstream presence in Spain and upstream concentration in Argentina through its wholly-owned subsidiary, YPF. In 2004, the group had 4.9 billion boe of proved reserves and produced 1.17 million boe per day of oil and gas and had revenues of EUR 36.16 billion.