Energy and Elections in Argentina

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Institute of the Américas
Presidential elections: a tie-break definition

<table>
<thead>
<tr>
<th>Mauricio Macri</th>
<th>Daniel Scioli</th>
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<tbody>
<tr>
<td>• New market-oriented model</td>
<td>• Continuity of current model</td>
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<tr>
<td>• Seems to favor 'shock-type' change</td>
<td>• Moderate and gradual changes</td>
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What are the risks? Failure to timely and properly deliver results
The economic legacy

- Widening fiscal and trading deficits
- Energy trade deficit
- Double digit inflation
- Capital controls
- Low foreign exchange reserves at central bank
- Overvalued official exchange rate
- Defaulted debt; lock out from international financing
Argentine oil prices flying high

- Motorists subsidize drillers
- Global oil producer cut spending while major Argentine producers maintained capex
- Can this price level be sustained?

Global oil price
$50

+50%

Domestic oil price
$75
Operating Rig count: diverge behaviour

- Global Rigs
  1140 Rigs at Sep.15
  -13% in 24 months

- Argentina
  110 Rigs at Sep.15
  +33% in 24 months

Source: Baker Hughes Inc.
Improved Regulatory Framework

- New hidrocarbon law Nº 27007, 2014
- Presidential decree Nº 929, 2013

- Extension of shale fields concessions for 35 years
- Ability to export 20% of production w/o export tax (investment above $1 billion in a 5 year period)
- Oil price at $75 /b
- Natural Gas price for new developments at $7.5/MMBtu ($4/MMBtu for conventional production)
Limitations to massive investment associated to macro factors

✓ Restriction on profit repatriation
✓ Currency and trade controls
✓ Complicated process to import equipment
✓ Limited access to foreign financing

But… investors seem to bet on change in Argentina
Shale oil potential: largely untapped resources

Shale Oil:
+345 Mil Mill. Bbl
+10% Oil resources

Shale Gas:
+7.299Tcf
+ 32% Gas resources

• 10 years of consumption

• 63 years of consumption

Source: EIA
Billions of barrels

Nota: the data only relates to oil resources in billion barrels

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Can Argentina replicate US success?

Keys to US success:

- +20 years to develop shale industry
- Mostly developed by privates sector
- Intense drilling activity
- Suportive government
- Extensive infrastructure and oil service industry
- Access to financing
Focus on well productivity
Argentina competitive position

**PROS**
- Good geological quality of shale resources (Eagle Ford)
- Far from urban areas
- Well-educated workforce
- New hydrocarbon law
- Incentives to regain energy self-sufficiency

**CONS**
- Private participants with limited scale
- Cost efficiencies yet to be achieved
- Limited access to financing
Shale activity in Neuquén

Source: Neuquen's energy subsecretary

Non conventional drilled wells

Shale production wells

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Non conventional production in Neuquen

Source: Neuquen’s energy subsecretary

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Argentine shale current status

- YPF is the main player
- Vertical wells outnumber horizontal wells
- Oil wells outnumber gas wells
- Non conventional gas production mostly associated to non conventional oil
The investor’s perspective

- Country Risk
- Financial Risk
- Business Risk

Investment Decision

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Country Risk
- Political uncertainty
- Energy policy to be defined by new president
- High inflation, capital controls

Business Risk
- Complex geology
- High cost state of the art technological requirements
- Aggressive capex
- Domestic oil price uncertainty

Financial Risk
- High financing needs
- Investors appetite for oil companies uncertain under current global oil prices
- Limited domestic financing
Existing market participants

- Chevron
- Gazprom
- Exxon (Xto Energy)
- Shell
- Total
- Petronas
- Wintershall
- Dow Chemical
Closing remarks

High potential

Riskier investments demand higher returns

Domestic macro regulation needs to improve

Encouraging policy shift under new president
Q & A

Thanks!

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