

Major investment potential

By **SIR MICHAEL RAKE**

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MICHAEL RAKE is a former Chairman of BT Group plc as well as Worldpay Group plc, a director of S&P Global and chairman of Majid Al Futtaim Holdings LLC. He was President of the CBI from 2013 to 2015 and a member of the Prime Minister's Business Advisory Group. He served as non-executive director of Barclays plc from 2008, becoming Deputy Chairman and as Chairman of EasyJet plc from 2010 to 2013 and as the first Chairman of the UK Commission for Employment and Skills. He was knighted in 2007.

How have you seen Argentina changing as an investment destination over the last few years?

Argentina has the potential for a materially different economic future compared to where the country was pre-2015. The election of Cambiemos, which was reaffirmed in the October 2017 mid-term elections, was hugely positive for international investment and the rehabilitation of the economy.

President Macri's economic strategy, centred on business and foreign direct investment, has given increased confidence for the future Argentina. Whilst difficult choices have been made, the positive progress in laying the foundation for growth has been recognised by the IMF providing significant support during what has been a turbulent year.

From my perspective, the investment fundamentals remain in place underscored by a pragmatic policy agenda.

What are the key changes in Argentina you believe are most helpful to investors?

The economic reform policy agenda is central to creating an environment in Argentina that is conducive to continued and sustained investment. This has included widespread corporate tax, labour and capital market reforms that, together with the government's

zero-tolerance policy on corruption, have been key to stimulating economic growth.

Focusing on normalising economic imbalances and the deregulation of currency, commodity and capital markets underpinned the MCSI's decision to reclassify Argentina as an emerging market in June 2018. It is important that deregulation continues with market prices established across the economy.

Having been involved with British-Argentine commerce and business for some time, it is clear to me that Argentina now has the potential to be a major focus for international investment. Argentina is an extraordinary country with a proud commercial heritage, blessed with a wealth of natural resources and a skilled, well-educated workforce.

What influence will the development of Argentina's natural resources, and particularly Vaca Muerta, have on the country?

The Vaca Muerta shale oil and gas deposit is a world-class unconventional resource play which has the potential to transform the future of Argentina's economy. Realistically, the sectors of the economy with the potential to reverse the balance of payments deficit and bring in hard currency are oil and gas and agriculture.



Phoenix holds the licence to some 560,000 acres of Vaca Muerta

The government has a clear agenda for the development of Argentina's oil and gas resources focused around Vaca Muerta and other unconventional plays. Having produced in excess of 90,000 boepd in 2017 and with production expected to increase to 110,000 boepd in 2018, largely driven by the efforts of YPF, Argentina is capable of being a net exporter of oil and gas in the not too distant future.

As production increases then inward investment will follow suit. This is happening already with significant investment by major international players including ExxonMobil, Chevron, Shell, Total, Pan American and Equinor. In 2017, US\$7.5bn was invested into the Vaca Muerta and we believe this will only increase further. It is critical that investment continues to be made in infrastructure and attract further investment and support economic growth in Argentina.

What will be key to the development of the Vaca Muerta going forward?

The economic production of shale oil and gas is technology driven. The adaptation of Argentina's considerable expertise in conventional oil and gas extraction to unconventional production is key.

This has started with a number of the international service companies now operating in-country bringing the experience, knowledge and technology developed in comparatively mature unconventional production regions, notably the United States, to bear in Argentina.

Recognising the importance of technology, Phoenix has a dedicated technical centre in Houston focused on the transfer of technology and expertise to our teams on the ground in Mendoza and Neuquén.

How does Phoenix's position fit in the overall context of what is happening at Vaca Muerta and what makes you unique?

Phoenix's sole focus is Argentina's oil and gas and the rapidly developing unconventional sector.

Our oil and gas licences give us approximately 7.5 per cent of the total acreage of the Vaca Muerta, equating to some 560,000 net acres focused around three key areas, Puesto Rojas, Mata Mora and Corralera. This significant focused acreage position is unique among the independent operators in Argentina.

In addition, we have access to capital and during the early phase of our development have enjoyed strong financial backing from our primary shareholder, Mercuria. We continue to be listed in both London and Buenos Aires giving investors the opportunity to participate in our story and, importantly, providing optionality for funding.

What will be the focus of the company going forward?

To date we have been most active in our traditional heartland in the Puesto Rojas area to the north of the Vaca Muerta formation in Mendoza Province. Earlier in the year we were successful in securing acreage the prospective Mata Mora and Corralera concessions. Together these areas will be our primary focus for unconventional activity. We recently undertook our first unconventional evaluation programme, including commencing drilling our first horizontal well and are focused on de-risking our key acreage positions to move from exploration and evaluation into development and production. E

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Production at Vaca Muerta is expected to increase to 110,000 boepd in 2018