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Pampa Energía 3Q 2010 Conference Call Transcript

Presenting for Pampa Energía: Ricardo Torres, CEO

Ricardo Torres: Thank you very much. Good morning everyone, thanks for joining us in this conference call.

This quarter was really very calm in terms of new developments and relevant events, so I will try to be very brief and leave more time for any questions you might have. As you know, you can always call me or anybody of our team for more details on the numbers of the quarter or any doubts on the press release.

So let me start with the relevant events that took place. The first one refers to Edenor, which issued last month US\$230 million dollar bonds maturing bullet in 2022 with an interest rate of 9.75%. Of those US\$230 million, US\$90 million were issued in exchange of Edenor's 2017 bonds, and US\$140 million were effectively new money. Additionally, Edenor made a cash repurchase offer for its 2017 bonds, through which it bought back US\$34 million dollars of nominal amount. Overall, this operation represented a cash inflow for Edenor of around US\$93 million after expenses, and there are still nearly US\$25 million dollars of 2017 bonds. We believe this was a very important operation since it's a bullet bond maturing 12 years from now. We were one of the first companies to go over the 10 year standard; we are very confident and proud of that achievement and that we will have no significant capital maturities coming due in Edenor for many years.

Second, on September 13th the CNV (which is our local SEC) authorized the cancellation of the shares we had bought back in the past two years. Recall that during the financial crisis, we had repurchased almost 14% of our capital stock at less than \$1 peso per share, which represents a huge discount to book value and to current market price of \$2.30 pesos per share. After the cancelation of the shares, our capital stock is made of 1.3 billion shares. The cancelation of the shares is important in that it allows us once more to buy back more shares, if we

decide to. At this point we haven't implemented a new repurchase program but we still believe that our share is undervalued, so it's something we might probably study in the near future.

Next, I want to comment on the status of our expansion at Loma de la Lata. As you all know, one of our main goals for 2010 is to finish the 180MW expansion, which required a US\$225 million dollars investment plus taxes, and for which we estimate an incremental EBITDA of around US\$75 million dollars. At this point, we are a few weeks away from beginning trials required by the wholesale market (CMMESA) prior to beginning commercial operation. We believe that this will take the next 30-45 days so we will begin operations by the end of this year or in early January. Also in relation to this project, we are in the final stage of obtaining the registration of the project as a clean project, which will allow us to issue carbon credits. We expect an additional EBITDA coming from carbon credits of around US\$8 to US\$10 million dollars. That is really very important. The whole picture of Pampa will have a dramatic change after the cash stream from Loma la Lata comes through to the company.

Remember that part of the attraction of the expansion was that it allows us to start investing in the gas business. Regarding the PEPASA gas plus projects, we continue negotiating new agreements similar to the one with Apache or YPF. In that sense, we have a very good position because we were allowed to buy gas at us\$5/ MM Btu which is over the production cost in the fields we are exploring now.

Regarding the Ingentis project, we are still pursuing the sale of the two 100 MW turbines, and we are very optimistic regarding said outcome. Based on current negotiations, we believe we will recover most of the capital invested.

Now going to the results of the 3Q 2010. We basically presented zero net income in the third quarter of 2010, versus a net gain of AR\$59 million last year. This was mainly given by two factors: first, a reduction of our operating income given by the lack of tariff increases in an inflationary environment. This is a process that has been happening for the last 3-4 years when salaries and other costs of operations are increasing at the inflation pace but our revenues and margins are fixed in pesos, so the operating margin has shown reductions in 2008, 2009, and 2010. And second, lower gains from the bonds repurchased, which amounted to AR\$1

million pesos this quarter versus AR\$35 million pesos gain in the same quarter last year.

In the same way, our EBITDA for the third quarter of 2010 amounted to AR\$154 million pesos, that is 23% lower than the AR\$200 million pesos for the same period of 2009, basically due to reductions at all of our operating segments by similar figures.

In the case of the generation segment, even though generation amongst quarters remained stable at 1.6 thousand GWh, EBITDA was reduced by 23% mainly due to cost increases and to a lesser extent, to the generation mix (for example, in this quarter we did not present export sales which are very profitable to us).

In the case of transmission and distribution, the reductions in EBITDA were mainly given by the impact of cost increases, with no tariff adjustments. Particularly in Edenor, recall that we have more than 30% tariff adjustment pending from the CMM for the period from November 2007 to April 2010. Nevertheless, it's important to remember that we have been authorized to retain as cash the penalty system called PUREE, instead of paying it to the government, so even though it's not seen in the P&L, it's money coming to the company. In that sense, in the third quarter of 2010 we collected AR\$74 million pesos from the PUREE, 68% higher than the AR\$44 million pesos we collected in the same period in 2009. This is mainly given not by increase in the penalty but by the increase in consumption. Remember that these penalties are based on tariffs that are so low that the impact on the consumption behavior is very low.

The thing that I always recall is that, even in the current environment, where our revenues are in the peso level of the 90s, we are still making positive cash flows, understood that these cash flows are being reduced every year. But after the huge reduction in our debt and the restructuring of the maturities we have done, we have no significant capital maturities in the coming years, and we are still in a good position to wait for a full normalization of the sector to occur.

Finally, and to end up with my review of the quarter, I'd like to briefly discuss current negotiations with the government regarding tariff increases. As I mentioned in our last conference call, we are still negotiating an increase in the capacity payment for generators. Four years ago, the government signed a regulation saying that once the two big Foninve mem combined cycles were built

(which occurred in 2006 and 2009), the capacity payment would be normalized to almost us\$10/MW-hrp that it was in the 90s, but we are still negotiating that increase. The government is asking certain commitments from generators, especially big hydro companies that have huge amounts of credits of the margin that they haven't collected yet from the government. The negotiation is evolving at a slower pace than what we had expected. Nevertheless, the government is aware of the restraints generators are facing, and therefore giving certain financial help to them. These financial aids include loans with no maturing date or loans that can be paid back after the increase of tariffs. They are not formal tariff increases but in terms of the financial equations of the companies are helping to pay the incremental costs we have every year.

But also, we should expect an increase in the level of tension due to salaries adjustments expected given the high level of inflation we are facing, in a context with no tariff increases. We are trying to make the government aware of the situation to speed up the process.

Well, I think we've covered the main issues of the period. Basically the main worry is inflation vis-a-vis negotiation with the government. We are still optimistic about achieving some goals before we need to open negotiations with the unions again in the next 2-3 months. So, I'm now open for your questions if you have some. So thank you very much. Operator?

Question 1: My question is on Loma La Lata. We know that trial should be starting right now. Should the expansion be fully operating by next year?

Ricardo Torres: We have the same expectation. We think that during the rest of November and December we will have all of the tests done that CAMMESA requires to make sure market regulations are met and to ensure that the equipment is allowed to connect to the grid. We really think that by the first of January, we will start to have some revenues. There could be a 1-2 week delay but no more than that, we are in the final stages. We already generate some electricity as part of some of the proofs made to the equipment two days ago. This technically deals with synchronization with the grid. We are very optimistic that in the next 45 days we will be commercially approved

Question 2: What is the amount of energy the new expansion will be sold? And what is the average price that you will charge from these sales?

Ricardo Torres: The new energy will be of 180 MW. We will be selling to CAMMESA - with several types of payment: capacity payment plus energy payment at around an equivalent of us\$55/MWh; more or less 50-60 MW will be sold in Energía Plus market currently at an average price of something between us\$60-us\$65/MWh. On top of that, the expansion will allow us to get a margin on the gas we consume in the current TG plants at 10% of the cost of gas plus, that means us\$0.50/million BTU more or less. So with the combination of everything, we expect to increase EBITDA by us\$75 million per year.

Question 3: Can you give us some comments on the overall tariff situation and what your view on the chance that you guys can negotiate to get a fair market price on tariffs and if you can give us a sense of the percentage, in terms of revenue, that you actually can charge a fair market value?

Ricardo Torres: First, in terms of tariff, we have different situations in different segments. Transmission and distribution have tariffs that are totally regulated and set by the regulator. The tariff that the regulator approves must, according to the law, cover all the operating expenses, CAPEX, taxes, and a reasonable return on the capital investment.

Question 3, continued: Apparently, this quarter you are not able to bypass this into your customers.

Ricardo Torres: Since 3-4 years ago, we agreed to a process with the government to adjust the tariff for incremental cost, that is the MMC, and the government has not approved any of these increases nor has it approved the final negotiation of tariffs after the crisis of 2002. So I would say that all of revenues from distribution and transmission are out of what would be the real cost of the service at a certain level of quality. Going to generation, we have the same situation except in Energía Plus, a free market created by the government 4 years ago. Of the almost 2,000 MW of installed capacity, we have 100 MW that we can sell at market prices (us\$65 MWh average) and 1900 MW that are still in the old energy system where we are collecting us\$27/MWh, which we expect the government to increase these payments. Of the 180 MW we will add, all will be sold at fair market prices. So more or less, 15% of our generation will sell at fair pricing while 85% will continue to have frozen peso revenues. The thing is the government is aware that this is putting a lot of pressure on the company that we have the pressure from the

unions, the increased maintenance costs in dollars or euros, but we are working. I've been saying this for 2-3 years, so it is not easy for me to say something is going to happen next year. But the government is very aware that they have to help the sector, and they are helping with measures that are not so complicated like flexible loans where they give us money to make the maintenance and salary payments with the promise of offsetting the loans with tariff increases in the future.

Everyday, there is some official of our group working with some government official, and all of our generation and distribution colleagues are also working on this. I would say that I think we will get something in the next month, but perhaps we will require more time for a total normalization of the regulatory environment. You should look to next year's elections, so perhaps we will have to wait for a full normalization sometime after.

Question 4: Regarding the agreement signed with YPF and Apache recently, should we expect similar events going forward?

Ricardo Torres: Going from the beginning, when we were approved by the government to sell some of Loma de la Lata's power to the system, they allowed us to buy gas in the Gas Plus market. Gas Plus is a free market, similar to the concept of the Energía Plus, where when you invest in new fields or new technologies, you are allowed to ask for a free price. The problem is that there are not a lot of industries prepared to pay this free price, so we are in a unique position where we occupy most of the current demand in that sector. So we want to leverage that purchasing power to increase our participation in the gas segment. So we are in 2 lines: a) agreements with big players that give us some percentage of the production in exchange of investments where we expect first to learn about the industry and second to obtain a profit; b) small fields we will operate ourselves. All of these fields will have low geological risk, for that we are entering with big players with a sizable investment or alone with a very small investment, never more than us\$1-us\$2 million just to begin gaining experience. In the future, we want to obtain almost 2.7 million daily cubic meters for Loma la Lata, but if we are successful in this venture, we can start to sell the extra. But at this point, we want to obtain all the gas needed to operate Loma la Lata at 100%.

Closing Remark: Thank you all, it was a pleasure. I am very grateful to have you at the conference call. Any needs or information, you know you can call us at any time.