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Pampa Energía 1Q 2011 Conference Call Transcript

Presenting for Pampa Energía: Ricardo Torres, CEO

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

As usual, I'll begin with an overview of the main events that took place during the last couple of months and then briefly discuss the main results of the quarter. 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 you might have, also there's a lot of information in the investor area's website.

So let me start with the expansion of Loma de la Lata. As you all know, we were in the final stages of the trials with CAMMESA to begin commercial operation of the 178 MW expansion, and we had also produced electricity at several periods during the trials. Nevertheless, we had technical problems in the steam turbine, which is part of the conversion to combined cycle of the plant, reason why we have postponed the estimated beginning of commercial operations to the end of the second quarter of this year. Related to this, we have agreed a compensation from constructor of US\$18 million dollars corresponding to the last payment we had to make to them, and we are taking the necessary steps to collect the business interruption insurance. At the beginning of this process it's not what we expected to happen, but from an economic point of view, Pampa will be almost harmless. Between the insurance company and constructor, they will take all the costs of the lack of operations and the 6 months delay.

Going to the second important thing that happen in the last months, the TGS deal, we closed the acquisition of EPCA, which owns 10% of CIESA, which in turn owns 55.3% of the share capital of TGS, for a total price of US\$29 million. As a consequence of this transaction, we have appointed one director and the vice chairman at CIESA and TGS, Gustavo Mariani was appointed.

Also related to TGS deal, we have advanced in two very important issues. First of all, we have signed a memorandum of understanding with Petrobras in which we agree to make our best efforts to go ahead with the restructuring signed in 2005 and to withdraw all pending lawsuits if the restructuring is achieved. Recall that if the restructuring is done, we will exchange all the defaulted bonds for 50% of CIESA, which in turn would control 51% of TGS, and we will also get a 4.3% direct stake in TGS. So overall, we would end up with an indirect stake in TGS of 29.8%. Remember

that we have paid for this US\$165 million dollars, and at current market value our 29.8% stake would be worth over US\$250 million, and top of that, we have to consider some control premium and also other income like technical assistant fee the company is paying to the controlling shareholders.

Secondly, TGS has declared a dividend of around US\$240 million dollars, and once the restructuring is done, CIESA will also be able to distribute it to its shareholders. Of that dividend, our 29.8% indirect stake in TGS represents around US\$70 million -that is the 42% of the price paid for the whole investment- that we will collect once the restructuring is done. The pending matters to close the deal now are basically the approval of Antitrust Authority and the Enargas -the regulator of the gas-. The regulator gave us a good start on the process, approving our acquisition of EPCA in less than 30 days. Therefore, we are very optimistic about the closing of the restructuring, start to receiving the shares and participate in the control of TGS.

Finally, I want to comment on the re-opening of Edenor's 2022 bond. Last month, Edenor issued US\$70 million dollars, on top of the US\$230 million dollars already in place. These additional notes were issued under the same conditions, with 9.75% of interest rate and payable bullet in 2022. The issuance price was over par of 101.25% so the yield at issuance was 9.57%. The reason why Edenor made this re-opening is basically to fund the acquisition of the new distribution companies and bring financial support to these companies on their capital structure.

Now going to the results of the 1Q 2011, we presented an EBITDA of AR\$240 million pesos in the first quarter of 2011, 25% higher than 2010, mainly due to increases of 40% in the generation segment, 45% in the transmission segment and 11% in the distribution segment. All this figures are including only one month of the distribution companies acquired by Edenor -that is, 1/3 of the quarter- and nothing coming from the TGS acquisition. We would start to consolidate TGS' results once acquiring the condition of shareholder.

The higher EBITDA at our generation segment was given, first, by a 44% increase of our electricity generation, mainly given by Piedra Buena which was required to generate with fuel oil given less hydro generation in the system. And second, by the recognition of higher capacity payments and higher operation and maintenance costs to generators since the signing of the agreement with the Government in November 2010, which amounted to AR\$33 million pesos for this quarter.

With respect to the transmission segment, let me remind that by the end of last year, Transener obtained a recognition agreement for extra costs that incurred during the period 2005-2010, for an amount of almost AR\$300 million, part recorded and collected in 2010, part going to be recorded and collected in 2011 and 2012. Also, Transener was able to agree with the Government an increase in the canon of the Fourth Line, which was entitled to collect for the last ten years and was lacking adjustments for a while.

Finally, the increase in our distribution segment's EBITDA is mainly given by the acquisition of Emdersa and Eden in March of this year, for which we have consolidated one month and which contributed an EBITDA of AR\$30 million pesos. This was partially offset by a reduction in Edenor's EBITDA of AR\$19 million pesos, which as you already know, was mainly given by cost increase pressure and we are unable to obtain higher tariffs, but also almost all the decrease in the EBITDA was covered by an increase in the PUREE collection, amounted approximately by AR\$66 million for the quarter. This increase is mainly given not by increases 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. Let me recall that Edenor is keeping the cash from the penalty system called Puree.

Net income for the first quarter of 2011 amounted to AR\$15 million pesos, AR\$10 million pesos higher than the same period of 2010. This was mainly given by the increase in the EBITDA previously mentioned, and the recognition of an AR\$60 million pesos gain due to the consolidation of the assets acquired to AEI, which were partially compensated by higher financial result losses given mainly by a higher interest expense, because of the acquisitions of the distros and TGS deal, the level of debt of the company increased. Also because of the delay in Loma de la Lata, part of the financial results of the financing of that project is recorded to the P&L, previously was part of the cost of the project.

Well, I think we've covered the main issues of the quarter. I'm now open for your questions if you have some. So thank you very much. Operator?

Closing Remark: Thank you all, it was a pleasure. I am very grateful to have you at the conference call. The last thing I want to remark is that we are still in conversations with the Government to improve our tariffs, especially in Edenor, the only sector with no improvements registered last year. We are in an elections year, we would find some delay but a positive response. We are optimistic that it would happen sooner or later.

Any needs of information, you know you can call us at any time.