

August 12th, 2011 (10 am Eastern Time)

Pampa Energía 2Q 2011 Conference Call Transcript

Presenting for Pampa Energía: Ricardo Torres, CEO

Ricardo Torres: Thank you very much, Mike. Good morning everyone and thanks for joining us.

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, we also have a complete set of figures on our webpage.

So let me start with the expansion of Loma de la Lata. As you all know, by January we were in the final stages of the trials with the regulator to begin commercial operation of the expansion, but we had technical problems in the steam turbine and we had to postpone the beginning of its commercial operations. At this time, we are working hard to achieve the goal of being ready by September, so finally we will be ready to start operations very soon. Nevertheless, recall that from an economic point of view, Pampa will be almost harmless given that we have recovered US\$18 million dollars from the constructor and we will also collect the business interruption insurance. Both this concepts, the insurance and the collection from the constructor, have not being recorded as gains in our financial statements yet, but we are very confident that we will recover all the revenue lost because of this problem.

Going to the TGS deal, the only thing left to complete the restructuring of the debt of its holding company CIESA, is the approval of the Argentine Gas Regulator and the Anti-Trust Authorities, to whom we have filed for approval all the papers they requested. In that sense, we are very optimistic that the approval could be achieved in the next few months.

As a reminder, recall that because of the restructuring, we will own a 30% indirect stake in TGS. Also, we will be entitled to the proportional stake of the US\$240 million dollars dividend that is currently in CIESA's cash. On top of the dividend, we are entitled to collect between US\$15 and US\$20 million dollars more because of technical fees of the last three years that were collected by Petrobras but as part of the agreement they will pay to us.

Going to the distribution sector, we received some increases in tariffs on the new companies we bought and the subsidiaries with effect as of June 1, 2011. In Salta, we obtained a 34% increase to its distribution value added, representing around AR\$74 million pesos per year. In the Province of San Luis, we obtained a 16% increase to its distribution valued added, representing around AR\$18 million pesos per year. And finally, EDEN, the distribution company of the north and west of the Province of Buenos Aires, obtained a 15% increase to its distribution value added, representing around AR\$48 million pesos per year. Overall, they represent an additional revenue for the subsidiaries of around AR\$140 million pesos per year which will be impacting Edenor's and Pampa's financial situation in the second half of this year.

Going to transmission, in Transener, and with the aim of extending the maturity of its financial liabilities, a couple of months ago the company offered to buy back its 2016 Bonds or to exchange them for new ones maturing in 2021. As a result of this offer, US\$98 million dollars of the 2016 bonds were restructured, of which US\$51 million dollars were exchanged for cash and US\$47 million dollars for new Bonds maturing in 2021. Additionally, new investors subscribed US\$53 million dollars of the new bonds, which were used for the exchange for cash made for the others. As a result, with coupons of 9.75% and a yield of 10.5%, Transener refinanced the maturity for five years more. We are very proud of this achievements because of their perfect timing, right before the turbulence that we are seeing in the market today, so our congratulations for the people of Transener..

Very recently (I think we closed the deal yesterday) we extended the loans we obtained for TGS. The loans were extended for another four years, again in a moment of big turbulence and volatility in the market we were achieving these aims that are very important for us. And why do we think that they are very important? It's because both things show the big confidence that the financial market and institutions have in the company and its management and the normalization of the sector so in certain way they are putting their money where their opinion is.

Finally, moving on to generation, last May our thermal plant Piquirenda in Salta began commercial operations. We bought this asset together with the distribution companies bought by Edenor. We concluded an agreement with the regulator, by which we will be paid US\$18 thousand per MW per month plus the cost of the gas, that means more or less US\$6 million per year of revenues for this thermal plant. We were also allowed to burn gas plus, so Petrolera Pampa will sell part of its production to Piquirenda.

Now going to the results of the 2Q of 2011. First of all, I want to explain that from this quarter onwards, we will include in our press releases the concept of adjusted EBITDA instead of just EBITDA. We believe it's going to facilitate everyone to make your numbers, given that the electricity system has maintained over time the recognition of extra tariff revenues in the distribution segment, in the transmission segment and also to a very limited extent it is beginning to happen in the generation segment. management considers this compensation as revenue even though they are not

recorded in the P&L. So we are including it as an adjustment to the EBITDA. Therefore, at this point, we are adjusting for two things: first, the penalty system or PUREE at Edenor, which as you know does not pass through the P&L of Edenor, but the company anyhow keeps the cash against a debt to the government, which will be offset with future tariff adjustments. And second, we are adjusting Transener's figures for the money collected from the system, which is also not being reflected yet in Transener's P&L, in a situation very similar to Edenor.

So with this in mind, our 2Q of 2011 presented an adjusted EBITDA of AR\$223 million pesos, 15% lower than the previous year, mainly due to a reduction of 44% in generation and of 7% in distribution,

Recall that for distribution, this quarter includes the results from Emdersa and Eden, while in 2010 it was only Edenor. And also, we are not consolidating TGS, given that the restructuring of CIESA's debt has not been finalized yet.

The lower EBITDA at our generation segment was given by a couple of factors. First of all, a 29% reduction in the generation of our hydro plants, caused by less water available in the system, and a 17% reduction in the generation of Piedra Buena, given by a maintenance work done during the quarter. Secondly, a reduction in the exports from Guemes, Remember that the exports of electricity are sold at US\$77 dollars per MWh, while Argentine spot price is less than US\$30 dollars, so a reduction in the exports, even being a small part of the revenues of Güemes are a big part of the margin. Nevertheless, given the current situation of the electricity system, we do not expect to go back to the levels of exports we had in previous years. And finally, our EBITDA was also affected by increases in labor costs due to local inflation.

Transmission segment adjusted EBITDA remained almost equal, given by increases in sales which compensated for higher costs.

With respect to the distribution segment, adjusted EBITDA was down by AR\$11 million pesos in this quarter, given by a reduction in Edenor's adjusted EBITDA of almost AR\$100 million pesos, which was partially compensated by the incorporation of Emdersa and Eden, which added AR\$85 million pesos to this quarter. The big reduction of Edenor's adjusted EBITDA was given by higher costs due to inflation, and the re-categorization of certain contractors from the construction union to the electricity union, with a big effect of almost AR\$40 million in the quarter.. We expect this re-categorization of contractor to be also recognized in tariff negotiations with the government.

Finally, our holding segment had a lower loss at the EBITDA level thanks to the beginning of operations of Petrolera Pampa, which added AR\$4 million pesos of EBITDA in this quarter. We are including Petrolera Pampa in the holding sector because (it is a different business of course) but the segment is of very small significance. In the future we expect to provide more information about this segment on a separate base.

Net income for the second quarter of 2011 amounted to a loss of AR\$96 million pesos, compared to a loss of AR\$87 million pesos in the same period of 2010, even though

during 2010 we had recorded a loss related to the impairment of San Antonio of AR\$78 million pesos.

The reduction in this quarter's net income was mainly given, first, by the lower operating profits, as explained before. And second, by an increase in interest expenses of AR\$66 million pesos mainly due to the consolidation of Emdersa and Eden and the recognition of interests related to the Loma la Lata bond, which we previously capitalized and as from February are going to the P&L.

Finally and to close up, at this point and having presidential elections in a couple of months, negotiations with the government to increase tariffs have mostly stopped. But we expect that post elections this will begin to move again, mainly due to the fact that subsidies to the sector are now reaching almost 4% of the Argentine GDP and the Government is aware of this. We know that we will work together with them to find a way out of this situation.. Nevertheless, the debt restructuring of Edenor, Transener and CIESA have extended significantly maturities of our debt to between 4 and 12 years, so our basic problem is cost inflation and not debt maturities.

So this concludes my review but as you know, I am always open for your questions if you have some. So thank you very much.

Question: Good morning. My question is regarding the generation sector. You explained that the difference in operating performance was mainly due to less generation from the hydroelectric system and higher costs also. I understand that Piedra Buena was a one-time impact. Could you explain a little bit more if you expect the low generation from the hydro to continue throughout the year or if you expect this to be only for this quarter? Thank you

Answer: Good morning. The hydro is something that is totally out of our possibility of management. I think that because the water supply of the area depends on the snow of the previous year, that the water shortage will continue throughout the year. The thing that happens is that when the irrigation regulator (the people who regulate the water for human use), when they understand that it is a dry year, they restrict the possibility to use the water, so just the effect will be passed from the first semester to the second semester on the generation of the water, but the low level will be for the whole year.

In terms of the next year, we are now monitoring the snow level of the area, and it feels like next year could be another dry year for the hydro as well. We will have more information in two to three months from now because the snow season finishes more or less in September. In terms of Piedra Buena, it has two big turbines that need a 40-45 days stop for maintenance every year. In the past this was done between November and December every year. The maintenance of one of the turbines was transferred to this year in April. We expect to have a 40 days stop in each of the turbines every year for maintenance. The moment to do the maintenance is a negotiation between the

regulator and the company in terms of when we have the technical limits and when it's better for the system to administrate these stops.

In terms of increases in costs, you know inflation has less impact on generation, as the segment has less salary and expensed costs than distribution and transmission. But inflation still has its cost, and we are recognizing in these costs the higher inflation and the rise in salaries.

Closing Remark: Thank you all. What I want to say is that we are working very hard on Loma la Lata, we are working very hard with the government and hope that after elections some things will start to move, but if these hopes are not fulfilled, inflation will continue to affect our business in the near future, on the other hand the financial market, the public market and the banks market have given us their confidence through the refinancing of these debts for four and twelve years, so we believe they are betting on the normalization of the sector and on the company and the way we try to preempt the problems and take advantages of the opportunities and the windows we have in the market to restructure debt and we expect to enter into a path of normalization after October. The big danger we have is inflation, but inflation does not seem to be spiraling, so it's something we think we can keep under control in the near future. Thank you for being here and anything you need just call us. Thank you very much. Good morning.