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Pampa Energía 4Q 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.

As you probably know, the fourth quarter of 2010 and mostly the last few months were very intensive in terms of new developments and relevant events that took place. Therefore, I will focus this call on reviewing those events, and 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 on the press release.

So let me start with the relevant events that took place with 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, a month ago 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 are taking the necessary steps to collect both contractual compensations and the corresponding business interruption insurance, which we expect will offset in part the lack of income for the months we are not operating.

Second, related to the consumption of natural gas at Loma de la Lata, on December of last year we have signed two agreements, one with Apache and the other with Petrobras, to jointly invest in the production of gas plus in areas located at Neuquén and Río Negro. Within these agreements, we will invest around US\$36 million dollars in the next two to three years, and for which we will obtain around 300 thousand m3 per day of own natural gas production. The rest

to complete 2.5 million m3 per day will be bought from Apache and Petrobras with medium-term contracts, therefore securing all the natural gas consumption required at Loma de la Lata. Our intention is to increase the percentage of our own production in the consumption of LLL, but at the same time we are entering this new industry with prudence and trying to acknowledge the secrets of this new business through these agreements with very well known partners like Petrobras and Apache.

Moving on, I want to comment on the tariff negotiations we continuously have with the government, and in which we have had relevant improvements in Transener and the generation companies.

Beginning with the generation companies, in last November Pampa along with the main generation companies of Argentina signed an agreement with the Government by which capacity payment was increased by three times, and by which variable costs for operation and maintenance were also increased. For Pampa, we expect these increases to have a US\$30 million dollar annual impact on our EBITDA. Apart from this, our hydro plant Nihuiles will begin collecting cash all of its spot margin (which is now being accrued as a credit with the system), and this will have another US\$10 million dollar impact on its cash flow. In exchange for these benefits, and as a condition to their collection, we have committed to invest our 2011 spot margin (without considering these increases), which will amount for around US\$6 million dollars, in a new generation plant. At this point, we have already presented the project but it has not been approved yet. Therefore, and as you will see in our financial statements, in December of last year we began accruing these increases, but we have not started collecting them, although we expect that to occur soon

Moving to our transmission company Transener, on last December it signed an agreement with the government by which they were recognized costs increases since 2005. This is not the final tariff negotiation but it is a recognition of inflation and increased costs and salaries. The credit for these increases calculated by CAMMESA is of around US\$100 million dollars, including interests. As of December of last year, Transener had already collected US\$35 million dollars, which we have therefore recognized as revenues and financial interests in the fourth quarter of 2010. From here onwards, we will collect the remaining US\$65 million dollars subject to the availability of funds of CAMMESA, but it has not been yet pass through to tariff, so at this point we will consider this as a one-time increase

although we think it is a very important first step to recognize these increases in the tariff of Transener. Unfortunately, there are no improvements in the Edenor tariff negotiations. Edenor has seen increased costs in salaries and operating expenses, and we have not reached an agreement with the government for compensating these expenses. However, we are continuing to negotiate and I think we can have some news in the coming periods.

Finally, I want to comment on the acquisitions we have done in the last months. As you all probably know, we have acquired from AEI all of the outstanding defaulted bonds issued by CIESA, the controlling company of TGS. The bonds have a principal amount of US\$200 million dollars plus accrued interest, which together with other liabilities acquired adds up to around US\$325 million dollars. For this, we have paid US\$136 million dollars through our wholly owned subsidiary Pampa Inversiones. Our intention is basically to re-implement the restructuring agreement signed on September 2005 between CIESA's shareholders and the financial creditors, under which we as financial creditors would obtain 50% of CIESA's equity, which would control 51% of TGS. Or else, an agreement which would provide for similar economic rights. In this way, CIESA would finally end up its default process, which we expect will result in tangible benefits for CIESA, TGS and the shareholders of both companies. Related to this, we have also obtained an option to acquire the rights over the lawsuit that Ponderosa and Enron Creditors have initiated against Argentina before the International Centre for Settlement of Investment Disputes ("ICSID") of the World Bank. This option allows us to drop the claim, right which we believe will be essential to obtain all necessary governmental approvals and tariffs increases at TGS. We are very optimistic about obtaining the final normalization of TGS and the controlling entity during the year.

Also related to TGS, last February we have accepted an offer to acquire all of the shares issued by EPCA, a company which owns 10% of the capital of CIESA. The total agreed price is US\$29 million, and as of today, we have not yet closed this operation. Related to this, we have just obtained the approval from the gas regulating authority, Enargas, which was the main condition precedent to the agreement, so we expect the acquisition to be closed shortly.

In summary, with these acquisitions and after the restructuring of the debt we will obtain 50% of CIESA, controlling 51% of TGS, and 4% direct stake in TGS thanks to the EPCA acquisition.

Finally, we have acquired through our subsidiary Edenor, 100% of AESEBA, which in turn holds 90% of Eden, an electricity distribution company with a concession area in the north and center of the Buenos Aires province, and 77% of EMDERSA. EMDERSA is the holding company of three electricity distribution companies at San Luis, Salta and La Rioja. For this, we have paid on March 4th US\$90 million dollars for the equity of EMDERSA and US\$50 million dollars for the equity of AESEBA. Overall, Emdersa and Eden will add around US\$75 million dollars of EBITDA and 850 thousand clients, and we believe there are important synergies related to IT, management and CAPEX given Edenor's purchasing power and general expenses. We are very optimistic that these fields will improve very strongly in the next couple of years. Finally, these acquisitions were done at 3 times EBITDA while Edenor that trades around 4.5 times EBITDA, so we believe they will be very accretive.

Related to this, Edenor has assumed the obligation to carry out, according to current legislation, the public tender offer for acquisition of shares of EMDERSA owned by minority shareholders, but we expect that to be minor given that the float is only 2%, being the rest in the hands of the ANSES.

To end up with our relevant events, and as we have done for many years now, we have declared a dividend of AR\$18 million pesos, against which we will compensate the asset tax that Pampa is required to pay on behalf of its investors. Argentine companies and holders of common shares from Switzerland, Chile and Spain are not subject to this tax.

Now going to the results of the 4Q 2010, we presented an EBITDA of AR\$131 million pesos, AR\$13million pesos or 11% higher than 2009, mainly given by increases of 171% or AR\$51 million pesos in our generation business and 139% or AR\$29 million pesos in our transmission segment, that were partially offset by a reduction of 86% or AR\$66 million pesos in our distribution segment.

The higher EBITDA at our generation segment was given, first, by an increase of 59% of our electricity generated, 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 the increases to generators I previously mentioned in the amount of AR\$9 million pesos.

With respect to Transener, the increase in its EBITDA was mainly given by the recognition of costs by CAMMESA previously discussed in the amount of AR\$31 million pesos. Remember that we only consolidate 50% of Transener, and that part of the recognition of costs was included as financial results. As I have mentioned before, onwards we will collect the US\$65 million pending from the retroactive but it has not been yet decided to pass to tariffs, so at this point is a one-time thing.

Finally, our distribution segment's reduction in EBITDA was mainly 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. Nevertheless, recall that Edenor is keeping the cash from the penalty system called Puree. In that sense, in the fourth quarter of 2010 we collected AR\$86 million pesos from the PUREE, 59% higher than the AR\$54 million pesos we collected in the same period of 2009. This 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.

Net income for the fourth quarter of 2010 amounted to AR\$35 million pesos, AR\$75 million pesos higher than the same period in 2009, mainly given by the increase in the EBITDA previously mentioned, higher interest income related to the AR\$40 million pesos cost recognition at Transener previously explained, higher holding results for financial assets, and finally, due to a lower income tax given that in 2009 we had made an impairment of the holding's asset tax credits that were expected not to be recovered.

Well, I think we've covered the main issues of the period. 2009 was a year marked by the results of the debt repurchases while 2010 was a year of operating improvement especially at Transener and the generation segment. Meanwhile, at Edenor the impact of inflation shows with the reduction of operating income, but we are still trying to work with the government and the regulators to reach a final solution. I'm now open for your questions if you have some. So thank you very much. Operator?

Question #1: (E. Fernandez) How did you pay for CIESA's debt acquisition and please give an idea of the extra costs that the exercise over the option of the ICSID lawsuit would imply.

R. Torres: We bought the CIESA debt through a combination of short-term bridge financing and our own cash, and we expect that bridge financing to be refinanced into a medium term facility very soon. In terms of the ICSID, as part of the deal we have that right to exercise the option; we haven't disclosed the conditions because there'll be a right that we expect to be paid by TGS and Pampa in the future.

Question #2: (R. Cavanaugh) – How do you see the demand and supply of the sector evolving on the generation front. How tight do you see that equilibrium for 2011? You mentioned the increases that you perceived for Nihuiles and Transener. How hopeful are you that something could take place for Edenor and how do you see the government's stance in general towards pricing in the sector?

R. Torres: In terms of supply and demand, as you know for the last 7 years, demand has been growing at high levels. The government has made some very good investments like the increase at Yacireta and the remaining investment in Atucha and how they sponsored the investments in the two combined cycles made with the margin of the generators. I think these investments were very important to meet new records of demand in terms of hour and in terms of energy consumption. However, my opinion is that nothing is being done with any important price signal of the electricity, and as the country maintains this policy of very low tariffs and subsidies, demand will be putting a lot of pressure on the supply. Through the government or through private investment, we will need to achieve that level. For the private sector, of course, it is very difficult except when you have the right price signals as Energía Plus was. Energía Plus was basically a free market where you can sell at the real price to consumers, and we made almost US\$350 million in investment in that sector. On the old energy, I think the government needs to move to more true tariffs, so the people start to care about the electricity. But I'm not seeing any problem in the next couple of years in terms of being able to supply this increased demand because of this very good investment made by the government especially, unless we have a very dry year and the hydros go into a very low level of generation.

In terms of our negotiation with the government, the government is very aware of the situation of the distributors. As they tackle the solution for the generation and transmission, we are working with them very closely to obtain a solution for the distribution. Distribution is the last segment that needs to improve the financial equation to allow the company to invest more and to maintain the level of demand. I was always optimistic of the situation. This is an election year, so there could be some delays there. But the good thing is that the government is aware of the problem and of the urgency, and they are working hard to try to find a solution.

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