

Buenos Aires, August 12<sup>th</sup>, 2016 (10 am Eastern Time)

## Pampa Energía and Edenor Q2 2016 Conference Call

Presenting:

Leandro Montero, CFO of Edenor

Lida Wang, Investor Relations Manager at Pampa Energía

**Leandro Montero:** Thank you very much. Good morning everyone and thanks for joining us on this joint conference call of Pampa Energía and Edenor. As we usually do, myself Leandro Montero will be presenting for Edenor first, and then for this quarter, Lida Wang will present for Pampa Energía.

First, we will focus on the main events that lately took place and then briefly review the results of the second quarter of 2016. As you know, you can always call any member of our team for more details on the results of the period or any doubts you might have.

On June this year, and before we announced the call for redemption of our Notes Due 2017. At that moment, the outstanding principal amount of the loan was 14.7 million dollars.

On July 12<sup>th</sup> we made the redemption payment totalizing 15 million dollars, out of which 400 thousand dollars corresponds to accrued interests. As a consequence, our current total debt amounts to 176 million dollars maturing in 2022.

In June, this year, we were given notice of certain resolutions ordering injunctive reliefs issued by Courts of different Judicial Departments of the Province of Buenos Aires, applicable for La Matanza, Escobar and Pilar districts, establishing a three month suspension of the tariff increases set forth under Resolutions Number 6 and 7 of the Ministry of Energy and Mining and Resolution N°1 issued by the ENRE this year. These suspensions apply retroactively as from February 1st 2016, so the customers affected were credited in their invoices for the payments they made in excess in the previous months, taking into account this change in the tariff applied. This measure resulted in a 618 million pesos impact in our gross margin in the first semester.

In addition, on July 15<sup>th</sup> the Federal Court of Appeals of La Plata issued a new relief which extended the scope of the suspension to the whole Province of Buenos Aires. This measure affects 80% of our customers. In this case, the suspension was made from July 15 onwards for a period of three months. Up to date, this resolution has been appealed by the Federal Government, and is pending resolution by the Supreme Court.

Now, taking into consideration the results of Edenor in the second quarter of 2016, net sales increased by 202%, reaching about 2.7 billion pesos, compared to 899 million pesos for the same period in 2015. This increase was mainly due to the new tariff structure applicable since February 1st, this year, partially offset by a negative impact in sales of 1.2 billion pesos for the five-month

period retroactive effect which was accounted for in June, resulting from the injunctive reliefs issued by the Courts affecting retroactively the invoicing of La Matanza, Pilar and Escobar districts. Regarding to the volume of sales, the energy sold increased 4.5% to 5,719 GWh in the second quarter of 2016 from 5,475 GWh in the second quarter of last year, basically due to an increase of 11.7% in residential customers, compensated by a 5.5% decline in wheeling system customers.

The electricity power purchases increased 204% to 1.5 billion pesos in the second quarter of 2016 compared to 477 million pesos in the same period of the year before, mainly due to the purchase price increase issued in February 2016 by Resolution N° 6 of the Ministry of Energy and Mining, which represented in average an increase of approximately 282%. This growth was diminished by an adjustment of 553 million pesos due to the reliefs and for the affected period mentioned above.

Operating expenses increased approximately 1.4 billion pesos as a result of the raise in ENRE penalties and salaries and social security taxes, totalizing a combined loss of 1.36 billion pesos, which represents almost the whole increase. As I mentioned in the previous conference call, ENRE penalties increased due to the changes in the estimation introduced by Note No. 120,151 of the regulator issued on April this year. The increase can be basically explained by the application of the new method of calculation, which establishes that penalties should be based on the VAD that corresponds to the date on which the event occurs. This meant an charge of about 1 billion pesos in the second quarter this year.

Edenor's net operating income decreased by 1.7 billion pesos amounting a loss of 1.5 billion pesos in the second quarter of 2016 compared to a gain of 215 million pesos in the same period last year. This negative result was due to the increase in operating expenses I described before and to a reduction in the amounts obtained through SE Resolution 32/15, which were supposed to be replaced by the new tariff structure effective since February 1st, 2016.

Finally, the net income of the period shows a decrease of 1.3 billion pesos, amounting a loss of 1.1 billion pesos in 2016 second quarter, compared to a gain of 255 million pesos in the same period last year, mainly due to the increase in operating results explained above and to a decline in financial results caused basically by a rise in financial expenses -most of them generated by commercial interests from CAMMESA debt, partially compensated by the positive result of the deferred income tax.

Moving to the financial statements, the negative results recorded by the Company as of June 30, 2016 consume 100% of the reserves and more than 50% of its share capital; therefore the Company is subject to compliance with the provisions of Section 206 of the Argentine Business Organizations Law which provides for the mandatory capital stock reduction. Ours shareholders' shall decide to reduce the number of shares maintaining the proportionality of the holdings.

Related to Edenor's adjusted EBITDA, it resulted in a loss of 1.3 billion pesos in the second quarter of 2016, compared to a gain of 296 million pesos for the same quarter of 2015. As explained before the EBITDA is affected by the judicial measures which should be solve in the near future.

Finally, regarding Edenor's capital expenditures, during the second quarter of 2016 our investments increased by 46% reaching about 711 million pesos compared to 487 million pesos in the same period

of 2015, mainly focused on grid enhancements, maintenance and improvements, and communications and telecontrol facilities.

Lastly, on August 3rd the Federal Court of the Judicial Department of San Martín stipulated the provisional suspension of the aforementioned resolutions applicable to 100% of our customers with retroactive effect to February 1st, 2016. We have learned about this measure through the media while the Company has not been yet duly notified about. We consider that the compliance of these reliefs would place the company in an emergency situation. First of all, we would incur in an operative deficit that may cause the non-fulfillment of payments to CAMMESA, inability to comply with the capital investment projections and operational costs cuts. Moreover, this situation would place the electrical distribution service under concession into an unacceptable risk situation, and surely affecting the quality levels as well.

This measure, if applied, would entail returning to non-reasonable market position, in which 70% of customers, many of them with payment ability, would be paying again monthly bills of approximately 30 pesos.

The above mentioned situation, if kept over time, will also generate a monthly cash flow deficit and could set the Company under dissolution risk due to the loss of its equity.

Today this measure is not being applied and is pending resolution by the intervening court.

We are of the opinion, that since the injunctive reliefs suspend Resolution 7 issued by the Ministry of Energy and Mining this year, which-among other things, revoked Resolution 32 issued by the Secretary of Energy in 2015, the abrogated resolution regains validity, and consequently the deficit generated by these measures should be covered by funds transferred by the National Government to the federal distributors under the same proceeding effective in 2015.

So this concludes my review on Edenor, I will now leave you with Lida Wang, chief of Investor Relations at Pampa Energía, who will review other relevant events of the group, as well as the consolidated results. After that, we will be open for questions.

**Lida Wang:** Hello everybody and thank you Leandro.

Lately lots of developments have happened, but one of them marked a milestone in Pampa's history: the takeover of Petrobras Argentina on July 27. Since our last call on May when we announced the signing of the SPA, we've been working very hard on fulfilling all conditions precedent in record time, especially in successfully refinancing Petrobras Argentina's outstanding bond by issuing a 500 million dollars bond due in 7 years at 7 and a half yield. We are proud because not only we acquired a terrific company with great assets, we started with the right foot by coming back to the international markets at a very attractive yield - just few basis above sovereign bonds.

The final purchase price after adjustments amounted to 897 million dollars, which implies a value of 1.3 billion dollars for 100% of the equity of Petrobras Argentina. Still, we are awaiting for the closing of the assignment in the 'Aguarague' block by Petrobras Argentina in favor of Tecpetrol, which may imply a reduction of the purchase price of approximately 2.5 million dollars.

To tap this ticket, Pampa funded with a combination of:

- Own cash for 210 million dollars, which partly paid the 20% advance of purchase price at the signing of the SPA;
- Collected sale proceeds of TGS for 161 million dollars - transaction that we closed in the same day as Petrobras Argentina for a final price of 241 million dollars, later I will briefly comment about this;
- A syndicated loan granted to Pampa, which originally was for up to 700 million dollars and increased 50 million dollars more as Crédit Agricole and Banco Hipotecario joined the syndicate originally composed by Deutsche Bank, Citibank, ICBC and Banco Galicia, as well as the probability of the Argentine National Pension Fund ('ANSES') to dispose its assets, among them a 11.8% stake of Petrobras Argentina. However, as a result of the sale of TGS and such proceeds used to fund the ticket, the committed amount was reduced by 150 million dollars, being the syndicated loan's final committed amount of 600 million dollars, of which 75% is in US dollar denominated currency and the rest in pesos. Said syndicated loan financed 271 million dollars of the Transaction and the remaining will partly finance the mandatory cash tender offer for the minority shareholders of Petrobras Argentina. The committed amount is available for six months, due in one year after the disbursement and accruing an interest rate of Libor plus 700 basis and increasing with the time for the US dollar tranche, for the peso tranche will be at Badlar plus 550 basis;
- Private financing of 225 million dollars - of which 85 million dollars come from an interco with Petrolera Pampa and 140 million dollars from a loan with YPF and might be canceled at YPF's option either with cash or through the credit arisen from our disposal of 1/3 of Río Neuquén and 80% of Aguada de la Arena; and
- 50 million dollars of financing from an investment vehicle led by the controlling shareholders of Pampa along with other investors, which disbursed 20% on the signing of SPA and the balance was paid at the closing of the Transaction. This debt will be subordinated to the syndicated loan and before the expiration of the shares exchange offering or the merger between Pampa and Petrobras Argentina, the Company committed to cancel the total amount owed with ADRs of Pampa. As we previously informed, since this is a related party transaction it was submitted and considered reasonable to the Audit Committee of Pampa.

As it was informed when we announced the acquisition of Petrobras Argentina, in compliance with the Capital Markets Law (*Ley de Mercado de Capitales*) relating to mandatory tender offer to be made in the event of change of control and indirect acquisition, Pampa disclosed its intention for carrying out a mandatory cash acquisition offer and a voluntary shares exchange offer addressed to all minority holders of Petrobras Argentina. On May and June the Board and the Shareholders' Meeting of Pampa respectively resolved to formally promote both offerings, being:

- The price of the cash acquisition offer set at 0.6574 dollars per Petrobras Argentina share, as a result of replicating per share the base price offered to Petrobras Brazil, that is, the 892 million dollars. The cash acquisition offer shall be paid in pesos at the official ask FX rate;

- The issuance of up to 320 million new ordinary shares of Pampa, equivalent to 12.8 million new ADRs, which will be paid in kind to the minority shareholders of Petrobras Argentina that wishes to participate in the exchange offer. This capital increase of Pampa only represents a maximum of almost 16% of Pampa's capital stock after the increase;
- The ratio for the exchange offer will be the weighted average price of Pampa's shares during five days prior to the opening of the offers, divided by the base price of Petrobras Argentina per share. Pampa's board will have the discretionally of making a + or - 10% adjustment on Pampa's average share price.

As of today, both offerings have yet not been approved by the Argentine SEC. The Company is currently in the process of complying with all requirements in order to be able to consummate them as soon as possible.

In that sense, in order to fulfill the same spirit when we applied the base price, we applied the global price of 897 minus 2.5 million dollars adjustment to the price per share of Petrobras Argentina, implying a purchase price of 0.659 dollars per share, which converted into pesos it amounts to 10.02 pesos per share of Petrobras Argentina.

In the event the financing provided by the Syndicated Loan is not enough to meet the payment of the cash acquisition offer, Pampa will borrow from Grupo MTRES, a vehicle controlled by certain controlling shareholders of Pampa, for up to 25 million dollars, which will be disbursed only upon the request of the Company. This debt, in case of being materialized, is also subordinated to the Syndicated Loan.

We will be consolidating Petrobras Argentina's results by next quarter. Oil and gas E&P business will dominate our P&L, as we will be adding new segments to Pampa: downstream, gas midstream, petrochemicals, and enhancing our generation installed capacity.

So, Pampa's strategy onwards consists of merging Pampa with Petrobras Argentina, operating as a single entity as from the end of the year and being Pampa the absorbing entity. Still, after being thoroughly analyzed, it will be submitted for its approval to both companies' boards and shareholders.

Moreover, as related to what I mentioned before, due to the expiration of the exclusivity period with Harz Energy for the sale of Pampa's 25.5% indirect interest in TGS, Pampa started again the selling process to other parties. So, on July 19 Pampa agreed to sell for 241 million dollars to a consortium of buyers, composed by the Sielecki family and Grupo Werthein.

At the signing of the documents, the Buyers paid 8 million dollars and at the same time of the closing for Petrobras Argentina, it was carried out the closing of the sale of TGS, being 241 million dollars the final price and 153 million dollars more paid by the buyers. The remaining 80 million dollars shall be paid on or before February 15 of 2017, accruing a 5% annual interest rate.

Going to news on generation, specifically in Loma de la Lata power plant, on July 15 the new 105 MW high-efficiency gas turbine was commissioned for service, increasing Loma's installed capacity to 645 MW. However, as of today Loma is still negotiating with CAMMESA the final terms of the PPA.

Moreover, on July 1 Loma and CAMMESA subscribed a 10-year PPA as an award to the tender for new generation capacity, as stipulated in the SEE Resolution 21/16.

In said tender, generation subsidiaries of Pampa submitted four different new generation projects, out of which one was awarded. The awarded project consists of the expansion of Loma's capacity through a new GE aeroderivative gas turbine with a gross installed capacity of 105 MW, the same unit we have just installed. The estimated cost of the project amounts to 90 million dollars plus VAT. Once the addition is completed, which is estimated to be ready by August 2017, Loma would reach an installed capacity of 750 MW.

The PPA remunerates installed capacity for an initial fixed price of 24,000 dollars per MW monthly during the first 6 years, and then decreasing to 20,000 dollars towards the last years. The agreed variable price is 12 dollars per MWh.

Moreover, in our goal of supporting the development of renewable energies in the country, on May 17 Loma acquired the 100% of share capital of Parques Eólicos del Fin del Mundo, for 670 thousand dollars. Fin del Mundo is the developer of Parque Eólico de la Bahía project, a 50 MW installed capacity wind farm to be built in Bahía Blanca, south of Buenos Aires province. Fin del Mundo holds the right to usufruct a 500 hectares field, in which the wind have been measured during the last four years.

Going to Petrolera Pampa's news, on July we collected the payment of 455 million pesos as compensation owed to the Plan Gas program as of December 2015, through the delivery of sovereign bonds BONAR 2020 for a face value of almost 30 million dollars. Such bonds face restrictions on its transferability, setting a limit of up to 3% per month without penalty, with the exception of subsidiaries and/or affiliates, as well as requires the filing of information on a monthly basis.

Moreover, moving to our latest debt transactions, on June Petrolera Pampa issued bond notes ONS Series 8 for an amount of 403 million pesos, bullet in 12 months and at Badlar plus 400 basis. Also, on March Petrolera Pampa was granted by Santander a loan for 120 million dollars, maturing bullet in 18 months and accruing an interest rate of 7 and a half percent.

Finally on the news recap, our power plant Güemes issued two series of bonds ONS, being the peso series 7 for 173 million pesos at Badlar plus 350 basis maturing bullet in 18 months, and the US dollar link series 8 for 1.4 million dollars, payable in 4 years and bearing a 7% rate.

Regarding Pampa's consolidated results, first of all let me remind you that because we co-control Transener, we only consider 50% of its adjusted EBITDA.

So moving on to the results, in the second quarter of 2016 we recorded a negative EBITDA of 328 million pesos, compared to a positive EBITDA of 853 million pesos in the same period of 2015, mainly due to , mainly due to reductions of 100 million pesos in transmission, 1.6 billion pesos in distribution

and higher losses of 46 million pesos in holding and others, partially offset by increases of 45 million pesos in generation and 551 million pesos in oil and gas segment.

The higher EBITDA at our generation segment was mainly given by higher prices for the old capacity remuneration from the application of Resolution 22, compared to 2015's second quarter prices that were under an old pricing scheme, the peso devaluation which impacts our US dollar contracts through which we sell the energy to CAMMESA and under Energía Plus, as well as lower losses from the natural gas purchases due to increased recognized gas prices by CAMMESA for gas assignments. These effects were partially offset by a lower electricity generation, which is mostly due to technical problems and lower availability of gas in our thermal units, overhaul expenses at Piedra Buena and also due to increasing operating costs.

In the transmission segment, the EBITDA fell 100 million pesos during the second quarter of 2016 versus the same period of last year, mainly because the increasing operating costs outpaced the accrual of revenues corresponding to the Renewal Agreement.

Moving on briefly to the distribution segment which was previously reviewed by Leandro, during the second quarter of 2016 the EBITDA decreased by 1.6 billion pesos on a consolidated basis compared to the same period of 2015, mainly because of the injunctions on tariff increases to certain costumers and increasing operating costs.

In the oil and gas segment, in the second quarter of 2016 we posted an adjusted EBITDA of 716 million pesos, compared to 182 million pesos in the same period of 2015. This EBITDA was mainly given by higher natural gas sales from the joint venture between Petrolera Pampa and YPF in Rincón del Mangrullo, as well as the effect of the peso devaluation impacting our US dollar sales price. In that sense, during the second quarter of 2016 we produced an average of 2.7 million cubic meters per day, versus 1.2 million cubic meters in the same period of 2015, which represents an increase of 125% quarter over quarter. The agreement with YPF, signed in 2013 and initially committed to invest 150 million dollars, later was extended in May of 2015 and increased to a total investment from Petrolera of around 420 million dollars to be done until 2017. As of June, under this JV we have 101 productive wells, with around 2.3 million cubic meters per day of natural gas production during the quarter. Overall, including the agreement with Petrobras and Apache, as of June we had 133 productive wells.

Finally, our holding segment presented a negative EBITDA of 54 million pesos in the second quarter of 2016, compared to a loss of 7 million pesos in the same period of 2015.

Finally, in terms of net income, Pampa presented a consolidated loss of 1,099 million pesos in the second quarter of 2016, of which 668 million pesos corresponds to the shareholders of the Company, compared to the gain of 61 million pesos in the same period of 2015. This was mainly due to Edenor's injunction and higher losses from financial liability's exchange rate difference and interests, as a result of Peso depreciation against US Dollar, partially offset by higher profits from gas upstream in Petrolera Pampa and exchange rate difference from the holding of financial instruments.

So this concludes our review of Pampa and Edenor, now open the floor for questions. Thank you.