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Pampa Energía and Edenor Q3 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 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 third 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.

In connection with the main relevant events that have occurred during the last three-month period, first we will focus in our Tariff Revision Process (RTI). As we have mentioned before, in April this year, we started to work with the regulator in the integral tariff revision process. We found with the new authorities a fluent communication that allowed us to present in just five months our proposal for request of income, in accordance with the methodology and the standards required by the regulator.

In compliance with the established deadline, on September 5, we submitted our proposal for the new Tariff Structure to the ENRE. On October 28, the Public Hearing was held in order to provide awareness and discuss with the community the tariff proposal mentioned above. Nowadays, we are waiting for the ENRE's decision on the matter.

Regarding our proposal, which is available in the ENRE web page, we presented a gross asset base of approximately 6 billion dollars or a net of depreciation asset base of 2.6 billion dollars. The return on assets rate was established by the regulator in 12.46% before income tax.

Our proposal, which as required by regulator includes all its figures in Pesos at December 2015, aims at a Distribution Added Value or VAD of 15 billion pesos (approximately US\$1.2 billion), out of which we need to subtract the energy losses not recognized in tariffs (for about 7%) and the penalties imposed by the ENRE. This requirement takes into account estimated annual Opex for about 8 billion pesos and a Capex plan which totalize 26 billion pesos in the 5-year period. We have presented a very aggressive CAPEX plan, in order to improve our quality standards in terms of frequency and duration of electricity cuts, as required by regulator instructions, and all the measures needed to reduce and control energy losses.



The second issue we must definitely share with you is the current situation of the provisional remedies held against the Ministry of Energy Resolutions Nos. 6 and 7 and ENRE Resolution No. 1 (which authorized our new tariff schedule), all issued in 2016. Since May this year the Company has been notified by several courts of the Province of Buenos Aires about provisional remedies granted to individual and collective customers. As of today, all the customers of the Province of Buenos Aires are being billed according to the new tariff structure established by ENRE Resolution No. 1.

Regarding the provisional remedies corresponding to the districts of La Matanza and Pilar, in force at the closing date of the financial statements on September 30th, they are suspended at present as a consequence of judicial proceedings, and therefore the Company is currently applying the increased tariff according to Resolution 1 issued by the ENRE;

Since at the moment of the publication of the Financial Statements, the Company had not been instructed by ENRE on how to recover from the retroactive effect of the mentioned provisional remedies, we written off the corresponding income. The Company is waiting for the ENRE's instructions in order to properly record the margin effects of these remedies again.

In connection with the remedy set by the Federal Court of La Plata -"Abarca issue"-, which referred to the whole Province of Buenos Aires with exception of the districts of Pilar and La Matanza, the Supreme Court of Justice decided to revoke that remedy, reestablishing the tariff scheme set by ENRE Resolution No.1.

Lastly, regarding the injunctions against the tariff increase, on August 3rd this year, a short-term provisional remedy was held declaring Ministry of Energy and ENRE Resolutions mentioned above null till the date of the corresponding Public Hearing. On October, the court issued a final decision on the matter declaring the new tariff schedule inapplicable to small-demand customers (T1) and allowing them, at their sole request, to pay in accordance with the old tariff scheme. Currently, this judgment is out of action due to fact that the ENRE and the Ministry of Energy have filed an appeal, causing a temporary suspension until the Appellate Court makes a decision on the matter. Both districts, Pilar and La Matanza, are reached by the scope of said provisional remedy and can be affected by the Appellate Court's final decision, especially Pilar.

On September this year the Company implemented an 11.1% salary increase retroactive to May, and jointly with the labor union agreed new work methodologies since that day on, and quality standards goals which could imply an additional 2% salary increase if they are reached.

Moving to the financial statements, the negative equity recorded by the Company as of September 30, this year, amounts to \$ 317 million. Therefore, should this situation remain by December 31, the Company will be subject to complying with the provisions of Section 94, sub-section 5, of the general Business Organizations Law, which provide for the dissolution of companies in the event of loss of capital stock.

The Company is at present evaluating the different scenarios in order to improve its financial position, and it is carrying out the actions within its reach with the corresponding authorities so as to revert the mentioned situation. We understand that the affectation to the financial situation of these measures is temporary and should be regularized in the upcoming months.



Now, taking into consideration the results of Edenor in the third quarter of 2016, net sales increased by 227%, reaching about 3.4 billion pesos, compared to 1 billion pesos for the same period in 2015. This increase was mainly due to the new tariff structure applicable since February 1st, this year, through ENRE Resolution No. 1, partially offset by a negative impact in sales of 592 million pesos, resulting from the provisional remedies issued by the courts of the districts of "La Matanza" and "Pilar", suspending the mentioned above Resolution. Regarding to the volume of sales, the energy sold decreased 3.3% to 5,729 GWh in the third quarter of 2016 from 5,922 GWh in the third quarter of last year, basically due to a 6% decrease in Industrial and Wheeling System demands and to a lesser extend to a 3.4% average decrease in medium and small commercial demands.

The electricity power purchases increased 264% to 2 billion pesos in the third quarter of 2016 compared to 548 million pesos in the same period of the year before, mainly due to a growth in the average purchase price of approximately 282% since February 1st, 2016 through Energy and Mining Ministry Resolution #6. This growth was partially offset by a reduction of 192 million pesos due to the negative effect in the purchases cost since the grant of the injunction reliefs explained above. Operating expenses increased approximately 844 million pesos as a result of the raise in ENRE penalties and salaries and social security taxes, totalizing a combined loss of approximately 90% of 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 and that the Company should begin considering interests over this penalties. This means a charge of about 384 million pesos in the third quarter this year. In which concerns to salaries and social security taxes, the increase of 314 million pesos is attributable to a retroactive increase as from May 2016 in employee compensation granted in September 2016.

Edenor's net operating income decreased by 1.3 billion pesos amounting a loss of 723 million pesos in the third quarter of 2016 compared to a gain of 552 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 of 1.4 billion pesos in the amounts obtained through SE Resolution #32 in force in 2015, which were not fully compensated by the increase in the gross margin after ENRE Resolution 1.

Finally, the net income of the period shows a decrease of 871 million pesos, amounting a loss of 657 million pesos in 2016 third quarter, compared to a gain of 214 million pesos in the same period last year, mainly due to the increase in operating expenses 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.

Related to Edenor's adjusted EBITDA, it resulted in a loss of 536 million pesos in the third quarter of 2016, compared to a gain of 635 million pesos for the same quarter of 2015.

Finally, regarding Edenor's capital expenditures, during the third quarter of 2016 our investments increased by 28% reaching about 669 million pesos compared to 521 million pesos in the same



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

So this concludes my review on Edenor, I will now leave you with Lida Wang, Investor Relations manager 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. I'll give a quick recap of all what has been going on since our last call on August.

As Leandro commented on Edenor's process, tariff review for our regulated utility businesses is key for Pampa. Even in the toughest times, we've always worked and pushed to get tariffs normalized. This normalization is not only aiming to solve the financial problems at the affected companies, but also to solve the huge distortion that the last administration policies have provoked in the energy industry. As we always highlighted, subsidies should be granted to the people that needs it the most.

So, coming back to tariff reviews status, besides Edenor we are working very hard to finish by the end of this year the RTI processes for our affiliates Transener and TGS. At the end of September Transener started its review process and according to the schedule, it should be concluded by January and implemented on February 2017. The weighted average cost of capital has been informed – 7.7% in real terms after tax, and in the next few days Transener will be submitting the final version of the RTI proposal. The public hearing is expected to take place on the third week of next month.

Let me remind you that Transener hasn't been granted a tariff increase since 2006 and faces an urgent situation: credits acknowledging cost variations are adjusted with official indexes while real costs don't; those credits run out on May of this year. The collections from Cammesa demoted to the needed money to survive, we highlight that they are still in place but discretionary, not enough to normally conduct the business, carry out investments and damaging our balance sheet by increasing our liabilities.

In TGS, the 200% transitional tariff increase set on April of this year has been suspended in July by injunctions, being the final ruling from the Argentine Supreme Court issued on August, upholding the suspensions only to the residential segment until a public hearing was carried out. Approximately 30% of our gas transportation sales are linked with residential segment.

Between September 16 to 19, TGS among other companies and interested parties presented in the public hearing and transitional tariffs were restored but as of October 2016, being the period between April and September billed with old tariff. We are seeking financial assistance from the Government to compensate this period.

TGS is set to present their final RTI proposal by next few days and present it in public hearing on December 2.



Regarding the mandatory cash acquisition offer and voluntary shares exchange offer addressed to all minority shareholders of Petrobras Argentina, on September 7 Pampa's Board of Directors decided to increase the price to be offered for Petrobras Argentina's shares to 10.3735 pesos per ordinary share of Petrobras Argentina. We decided that with the purpose of speeding up and facilitating the filing process before the regulatory body, so we could move forward in a way that will benefit both Petrobras Argentina and the Company's shareholders.

We've got the full clearance from both US and Argentine SECs of the offerings on October 6, the same date of the offerings launching. It remained open until yesterday November 14 at 5 PM EST. Almost 29% of Petrobras Argentina's shareholders participated in the offerings, being a little more than the half choosing the cash offer. To repay this 29% of Petrobras Argentina shares, we estimate to issue 5.6 million out of the 12.8 million ADRs maximum amount approved by Pampa's shareholders, representing almost 8% of Pampa's capital stock, and disburse 3.2 billion pesos, which will be financed with the remaining available funds of the syndicate loan. After the settlement of the Offers, Pampa will own approximately 90.4% of Petrobras Argentina capital stock.

While we have publicly disclosed before, the remaining shareholders will be merged with Pampa, subject to shareholder and regulatory approvals. The merger of said companies will bring important benefits for Pampa and the whole corporate group to which it belongs since it will allow more resource efficiencies and take advantage of the scale and expertise provided by Pampa as the surviving company. Moreover, the Board of Directors resolved that the merger will be effective as of November 1, 2016; subject again, to all necessary corporate approvals, both from the Board of Directors and the Shareholders Meeting as well as the registration of the merger before the Public Registry.

Also, regarding the acquisition of Petrobras Argentina, we obtained the approval from the gas regulatory authority ENARGAS regarding our acquisition of the company and indirect change of control in TGS, as well as the sale of Pampa's indirect stake in TGS to Grupo Sielecki & Werthein.

On October it was finalized the assignment of 1/3 of Río Neuquén block and 80% of Aguada de la Arena block to YPF, as well as the assignment of other 1/3 of Río Neuquén and Colpa and Caranda block in Bolivia to Petrobras Brazil.

Continuing with E&P news, upon the expiration of the concession period in the block Medanito La Pampa and in accordance with a local recent regulation to take over the field, on October 29 the block was reverted to the Government of the Province of La Pampa.

Moving on power generation projects, since our last call we added 320 MW of more installed capacity, having a total expansion of 420 MW in pipeline. Besides Loma de la Lata's 105 MW project, we acquired a company named Albares that was awarded with a 10-year PPA contract in the thermal tender, with a capacity of 100 MW. The project is a greenfield located in Pilar's industrial park, Buenos Aires province, and will help to improve Edenor's electricity provision in the area.

Moreover, within the thermal auctions we got awarded another 100 MW expansion project in Piedra Buena under a 10-year PPA contract with Cammesa. Both Pilar and Piedra Buena's generators will be provided by the Finnish company Wärstilä and they can either fire gas or fuel oil. So, two out of the four originally projects we presented in the first round of the thermal auctions got awarded.



In renewables tender, the first round took place last month, we've been awarded a 20-year PPA contract for a 100 MW wind farm named Pampa Eólico I - Corti, in Bahía Blanca, Buenos Aires Province. The next round, we bid again another wind farm named Pampa Eólico II - Fin del Mundo, a 50 MW project located also in Bahía Blanca, Buenos Aires province. We are still awaiting for the results.

All generation expansion projects' pricing ranges between 40 to 60 dollars per MWh without considering fuel costs, and we estimate to spend between next and the following year almost 440 million dollars in capex for those expansions, which most of them will be commissioning next year and all units fully generating by the second half of 2018. By then, Pampa's installed capacity would reach to almost 4 thousand MW, 12% more than our current capacity.

Moreover, moving to our latest on debt transactions, aiming to optimize our cost of debt we are taking US\$-denominated bank loans replacing Peso-liabilities, for a total amount of 63 million dollars from different banks, bearing interest rates between 4 and a half percent to 6 percent and maturities ranging from March 2017 to September 2018.

Now, regarding Pampa's consolidated results, first of all let me remind you that from this quarter we are consolidating Petrobras Argentina's results, specifically since we took over the company on at the end of July of this year, so there's a 2-month impact in the quarter. Whereas oil and gas E&P business dominates our P&L as predicted, we are enhancing our generation segment results and also adding new businesses to Pampa: refining and distribution, petrochemicals and gas midstream through TGS. This last one actually is not new to us, since it is business that we used to own through the CIESA Trust and PEPCA and was pending of antitrust authority approval to be consolidated in Pampa's results. Now that we acquired Petrobras Argentina, we can formally start considering its figures.

So moving on to the results, in the third quarter of 2016 we recorded an EBITDA of 1.5 billion pesos, compared to a EBITDA of 1.1 billion pesos in the same period of 2015, mainly due to increases of 308 million pesos in generation, 1.4 billion in oil and gas segment, 269 million pesos in refining and distribution, 44 million pesos in petrochemicals and 22 million pesos in the intersegment eliminations, partially offset by reductions of 1.2 billion pesos in electricity distribution and 415 million pesos in holding and others.

The higher EBITDA of 308 million pesos at our generation segment was mainly given by a larger electricity dispatch in Pampa's generation units, which increased by 964 GWh quarter over quarter. This effect was mainly due to the commissioning of the new gas turbine at Loma de la Lata for 105 MW in July 2016, plus, in a lesser extent, to a higher dispatch of our hydro units due to greater water inputs and pumping activity as well as lesser maintenance stops and unavailability in Piedra Buena. Moreover, it also positively impacted the higher prices for the old capacity remuneration from the application of Resolution 22, compared to 2015's 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 the addition of Petrobras Argentina's generation activity, which contributed to the EBITDA 91 million pesos in spite of more than doubling our generation dispatch in the quarter. These effects were partially offset by increasing operating costs.



Moving on briefly to the distribution segment which was previously reviewed by Leandro, during the third quarter of 2016 the EBITDA decreased by 1.2 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 third quarter of 2016 we posted an adjusted EBITDA of 1.6 billion pesos, compared to 234 million pesos in the same period of 2015. Half of this EBITDA was driven by the addition of 2-month Petrobras Argentina E&P results, which contributed 816 million pesos of adjusted EBITDA and almost 80% of the total 82 thousand barrels of oil equivalent per day produced during the third quarter of 2016. Oil and gas price improvements in pesos due to the effect of the peso devaluation impacting our US dollar sales price also contributed in the segment's performance, partially offset by higher operating costs. Moreover, Petrolera Pampa's gas production increased from 1.7 million m3/day in the third quarter of 2015 to almost 3 million m3/day in the same period of 2016 as a result of our partnership with YPF in the Rincón del Mangrullo block. Keep in mind that Petrolera Pampa was conceived as a sole gas upstream company, being all its production sold to wholesale market such as industrials, power plants and Cammesa, while only 60% of Petrobras Argentina's production is linked to gas upstream, having better pricing quarter over quarter due to Plan Gas subsidy and a broader price range since it sells to residential as well. Consolidated Pampa and Petrobras, it was achieved 10.7 million m3 per day of gas production during the third quarter of 2016. This figure does not consider the sale of 2/3s of Río Neuquén and Aguada de la Arena, which would decrease our production to around 8.5 million m3 per day. The remaining 40% is crude oil production, reaching to 25.5 thousand barrels of daily production and entirely loaded to our refinery in Bahía Blanca. Although peso denominated barrel of oil price increases, dollar wise is going down as the country is slowly shrinking the spread between the domestic and international prices.

Refining, distribution and petrochemicals segments come along with the acquisition of Petrobras Argentina, which were not shared businesses within the original portfolio of assets of Pampa. In the third quarter of this year it posted an EBITDA of 269 million pesos and 44 million pesos, respectively. In operating terms and not considering Pampa's consolidation effect, total sales volume of refined products increased 3%, totaling 495 thousand m3 in the third quarter of 2016, of which 336 thousand m3 are consolidated within Pampa. Sales volumes shown an increase in diesel oil, mainly sold to brokers and gas stations, Marine fuel IFOs sold to the shipping sector and fuel oil sold to the energy industry. These increases were partially offset by reductions in gasoline sales volumes at gas stations.

Whereas, the total sales volume of our petrochemicals segment declined 6% in the third quarter of 2016, totaling 116 thousand tons in Q3 2016 of which 78 thousand tons are consolidated within Pampa. These reductions mainly responds to lower domestic sales due to decrease of local demand and increasing competition against imports, as well as lower exports because of international prices decline and larger overseas supply.

Finally, our holding and others segment presented a negative EBITDA of 394 million pesos in the third quarter of 2016, compared to a gain of 22 million pesos in the same period of 2015. This is mainly due to the addition of Petrobras Argentina's corporate segment since August 2016, which contributed a negative EBITDA of 254 million pesos. Had not considered Petrobras Argentina effect, the negative EBITDA is mainly explained by higher third party fees and labor costs as a result of



the acquisition of Petrobras Argentina. Also, as of third quarter of 2016, our indirect stake in TGS through Petrobras Argentina is recorded at the holding and others segment as 'Results for participation in associates'. We remove this figure and add TGS's EBITDA adjusted by our indirect ownership participation of 17.1%, posting 34 million pesos for the 2-month period in the third quarter of 2016. Moreover, as of third quarter of 2016 the results from our participation in Transener no longer are shown as a sole segment but they are recorded under the line 'Results for participation in joint businesses' of holding and others segment. Likewise, we remove this figure by adding Transener's EBITDA adjusted by our indirect shareholding of 26.3%, contributing 14 million pesos in the third quarter of 2016, compared to 35 million pesos in the same period of 2015.

Finally, in terms of net income, Pampa presented a consolidated loss of 1.1 billion pesos in the third quarter of 2016, of which 932 million pesos corresponds to the shareholders of the Company, compared to the gain of 40 million pesos in the same period of 2015. This was mainly due to Edenor's injunction and higher losses incurred from interests on financial liabilities and exchange rate difference related to the acquisition of Petrobras Argentina, as well as Petrobras Argentina's US\$500 million outstanding bond.

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