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Pampa Energía 2Q 2010 Conference Call Transcript

Presenting for Pampa Energía: Ricardo Torres, CEO

Operator: Good Morning, ladies and gentlemen and thank you for waiting. At this time, we would like to welcome everyone to Pampa Energía's 2Q10 results conference call.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that Forward-looking statements are based on the beliefs and assumptions of Pampa Energía's management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Pampa Energía and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Ricardo Torres, CEO. Mr. Torres, you may begin your conference.

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

As I've done in past conference calls, I will dedicate more time to the main events that took place during the second quarter of 2010 and leave the MD&A section to

discuss only our main figures. Of course, you can always find more information on our press release or call me or anybody of our team for more details.

So let me start with the relevant events that took place during the second quarter of 2010.

The first one is the agreement with Apache. I want to comment on Loma de la Lata's expansion and the recent agreements reached with Apache.

As you all know, one of our main goals for 2010 is to finish the 180MW expansion of our thermal plant Loma de la Lata. We estimate a total investment of US\$220 million dollars, and we expect it to be operating during the fourth quarter of this year. This is a very important project for us since we estimate an EBITDA coming from this expansion of around US\$75 million dollars, which will more than double our current generation segment EBITDA.

To assure the availability of natural gas for Loma de la Lata, we have signed a letter of intent with Apache to engage together in the development and exploitation of natural gas fields in Neuquén and Río Negro, two provinces in the south of Argentina. Pampa will invest around US\$10 million dollars, representing 15% of the Capex needed to develop those fields, and in exchange we will obtain 15% of the production. And also, we will buy the remaining 85% of the gas produced at US\$5 dollars per million BTU. The total gas production expected from these fields is more or less 700 thousands m³ (cubic meters) per day and all of them will be used to fire Loma de la Lata.

Also, we have agreed to buy from Apache another 800 thousand m³ (cubic meters) per day for a period of three years at a price of US\$5 dollars per million BTU.

Both initiatives will ensure around 60% of the consumption of natural gas of Loma la Lata. This adds up to the Rincón del Mangrullo agreement we talked about last quarter with YPF, that will represent another 10% of Loma de la Lata's gas needs.

So this is very important that we already have most of the natural gas needed for Loma de la Lata secured. One of the main risk situations in Argentina today is the declining production of gas. Each year less gas is available for electricity generation, so this is the path that Pampa is pursuing - on one hand this will

assure the supply of gas for the most profitable plant of our portfolio for next year. And second, this is a new industry where we are making the first steps and this provides a very attractive growth opportunity for the medium for Pampa.

The thing that I want to clarify is that Loma de la Lata will pass through the cost of gas plus to the system. The price of gas plus is almost twice the regulated natural gas price but still a fraction of other alternative fuels such as burning fuel oil or gas oil or diesel. Therefore, it's a win-win situation, in which the system benefits from lower generation costs and Pampa obtains good margins from the production of gas plus. On top of that, and similar to when we burn fuel oil at Piedra Buena, Loma de la Lata will earn a 10% margin over the US\$5 dollars cost of gas plus. I expect I was clear in that for us this is the most important thing in the medium term for Pampa.

Another thing I want to mention that is important is bond repurchases. During 2010 we have repurchased only US\$32 million dollars of principal amount of bonds of our subsidiaries at an average price of almost 90%. As you know, bond prices have gone up (for instance, Edenor's bonds have been trading above par value for some months now) and liquidity has gone down due to the lower volume of bonds outstanding. Therefore, we are not repurchasing as much in bonds as we have done in the past. This is important to understand since a great part of the reduction of our 2010 net income came from less financial gains from bond's repurchases which amounted to more than AR\$200 million pesos in the first semester last year.

If we add the repurchases done in 2008, 2009, and 2010, we have bought back US\$370 million of nominal value at an average price of 55%. This allowed us to record a consolidated gain of AR\$12 million pesos in 2010, which adds to the AR\$436 million pesos we moved in 2008 and 2009, totaling AR\$448 million pesos.

Another important thing is the Ingentis project . As you all know, and to recap a little bit of the history of the project, this was a 200 MW project which we had begun together with the Province of Chubut. This project, similar to the Loma de la Lata one, required as part of the financing a US\$150mm bond. Two things happened; first, the international financial crisis in 2008 and 2009 and the local nationalization of the pension funds made this financing very difficult to achieve. Also, with some changes in the possibility of obtaining the gas for the project, we decided to put this project on hold. Plus, by the end of that year we decided to

put for sale one of the turbines and to cancel the contract with GE to acquire the other turbine.

As for new developments, last month we sold to Petrominera Chubut, a state owned company from the province of Chubut, almost 11% of Ingentis for AR\$33 million pesos. So, we have reduced our stake in the Ingentis project to 50%. So now a project that used to be 61%/39% with the province of Chubut is now 50%/50%.

Also, we have agreed to make our best efforts to make a capital reduction of Ingentis so that we no longer remain as shareholders of that company, receiving in exchange our proportional proceeds from the sale of the turbines or the distribution of the assets, if not sold by the time of the reduction.

Now going to the results of the 2Q 2010. We basically presented a net loss of AR\$87 million pesos versus a net gain of AR\$138 million last year. This was mainly given by three factors: first, a reduction of our operating income 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, so the operating margin has shown reductions in 2008, 2009, and 2010. Second, lower gains from the bonds repurchased; remember I just told before that this amounted to AR\$1 million pesos this year while in the same quarter last year we were at almost AR\$90 million, so considering the 6 month period it represented AR\$200 million pesos less in 2010 versus 2009. And finally, the other big issue is the AR\$78 million pesos write off in our San Antonio investment, which I will refer to in more detail in some minutes.

In the same way, our EBITDA for the second quarter of 2010 amounted to AR\$166 million pesos, that is 18% lower than the same period of 2009, basically due to a 15% increase in the generation segment that was more than offset by reductions of 24% in the transmission segment and of 36% in the distribution segment.

In the case of the distribution segment, the reduction in EBITDA was mainly given by the impact of cost increases, with no tariff adjustments. Recall that we have more than 30% tariff adjustment pending from the CMM for the period from November 2007 to April 2010. Nevertheless, it's important to note that in the case of Edenor, we have been authorized to retain as cash the penalty system called

PUREE, instead of paying it to the government, so even though it's not seen in the P&L, it's money coming to the company. In that sense, in the second quarter of 2010 we collected AR\$90 million pesos from the PUREE, 64% higher than the AR\$55 million pesos we collected in the same period in 2009. This is mainly given not by increase 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.

In the case of the generation segment, the 15% increase in EBITDA was mainly at Nihuiles and Diamante, the hydro companies, which presented higher electricity prices because the spot prices were higher in the period, they rose like 26%. Nevertheless, recall that more than 50% of the hydro Nihuiles and Diamante EBITDA is being retained by CAMMESA as Inciso C. In that sense, we had by the end of the second quarter AR\$142 million pesos to be collected. In the last 2-3 months, the pace of collection has been very slow; I would say perhaps lower than AR\$2-3 million per month.

The thing that I always recall is that, even in the current environment, where our revenues are in the peso level of the 90s, we are still making positive cash flows, understood that these cash flows are being reduced every year. But after the huge reduction in our debt and the restructuring of the maturities we have done in the last 3 years, we have no significant capital maturities in the coming years, and we are still in a good position to wait for a full normalization of the sector to occur.

Going more into detail to the San Antonio investment, an investment we made a couple of years ago. This is a company that was a leading player in the oil and gas drilling services mainly in Argentina, but with operations also in Colombia, Bolivia, Mexico and Brazil. San Antonio's original plan was to make an IPO in 2008, and that was made impossible because of the crisis. And, the company was now forced to refinance its debt, requiring a capital issuance to repay in cash part of that debt. As a consequence of the valuation that is being agreed between the creditors and the main shareholders, we considered that it was prudent to adjust valuation of our investment in almost AR\$80 million pesos, that is basically a one-time valuation adjustment.

Finally, and to end up with my review of the quarter, I'd like to briefly discuss current negotiations with the government regarding tariff increases. I had mentioned in our last conference call that for the first time in many years, the

government had begun negotiations with generators to increase their capacity payment which is currently fixed in AR\$12 pesos per MWh, when it used to be US\$10 dollars in the 90s. At this point, we are still in conversations with the Government, although at a pace that is slower than what we had expected. Nevertheless, the Government is well aware of the restraints that generators are facing due to lack of tariff increases and the growing demand that the system is facing with historical records achieved this month.

As an example, during August and July we had all-time records of power requirements in the system, and if you combine that with the decrease in the production of gas, you will understand that the system is under a lot of stress running diesel and fuel oil and LNG. So, this means higher maintenance costs for the system, so we expect the government will in certain ways speed up the process.

In the case of Edenor, perhaps you have read in the newspapers some news about the increases in tariff. These are increases that are not going to Edenor but to reduce the deficit the government is covering that is the difference between the cost of production of the electricity that is running fuel and importing electricity and LNG. The price users pay by the demand I think is at production, like at 25% of that valuation. So, all the increases in the bill of electricity is going as a reduction of the subsidies, so improving the accounts, but not the revenues of Edenor.

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

Operator: Thank you. The floor is now open for questions. If you have a question, please press *1 on your touchtone phone at this or any time. If at any point your question is answered, you may remove yourself from the queue by pressing the # key. Questions will be taken in the order they are received. We do ask that when you pose your question that you pick up your handset to provide optimum sound quality. Please hold while we poll for questions. (pause) Our first question is from Ricardo Cavanagh from Raymond James. Please go ahead.

Ricardo Cavanagh: Good morning Ricardo. I have some questions; the first one is regarding Loma de la Lata if you have a plan to engage in a similar contract with other oil and gas companies, you know, to secure the rest of the gas needed for

Loma de la Lata, that 30%. Second one would be if you can give us a status on the possibility, at least on the theoretical possibility, of Pampa being able to repurchase shares again. And basically if you can repeat, if I understood correctly how much money you are getting from CAMMESA per month? Those would be my questions.

Ricardo Torres: Thank you Ricardo. In the order you asked: gas plus for Loma. At Loma, we need 2.7 million cubic meters per day. We have secured 60% of that, we have negotiations with other big companies like Petrobras and Pan American to obtain the remaining. Our first objective is to participate in the development of the field, so in certain ways capitalizing on the fact that we are today perhaps the only real private buyer of gas plus. So, if we just wanted gas plus at market price, that is a process that is a lot easier. We want to participate in the development and to obtain certain benefits so the negotiations are hard. People of the oil industry are hard also, but I have no doubt that the full needs of Loma de la Lata will be secured by the beginning of operations.

Second, repurchase of shares. In Argentina, we have a limit that the local SEC, the CNV, allows us to repurchase shares up to 10% of the capital. At some moment of last year, they allowed to surpass that limit, and we repurchased 14%. But then to be able to begin again the repurchases, we need to go through the cancellation of the shares. We already had the decision of the assembly and the approval of the stock exchange, and we expect in the next 7-15 days the approval of the CNV that will end the cancellation process and we will be able to repurchase shares again. We will have this 10% limit already cleared for us. In terms of valuation, I have no doubt that at the current valuation, it is difficult to find better investment opportunities than to buy back our shares. We are at the end of the big Loma de la Lata investment process, so, I think after Loma de la Lata starts to produce cash flows, that would be a logical analysis to buy back more shares.

In terms of CAMMESA, CAMMESA has not been paying the inciso C since 2004. So from 2004 to 2006, that money that in the cases of Nihuiles and Diamante was almost US\$30 million dollars were applied to the construction of the FONINVEMEM plants. And that money was provided at that time to be paid in 120 installments beginning when the operation of these two combined cycles began. So, this US\$30 million dollars began to be paid in February and March of this year, of which we already collected like AR\$6 million pesos of the AR\$100 million pesos we already had accumulated at that time. Then, the unpaid bills of

2007, we collected 100% because remember the 3 to 1. At that time the government said for every 3 pesos you invest I will release you 1. So in 2007 we collected all. And for 2008 and 2009 and for the first semester of 2010, it is 1 to 1. So, if a company invests 1 peso, CAMMESA releases 1 peso. And we invested a lot of money in Loma de la Lata, so we expect these 170 million, from which 140 million are already recorded as of June to be collected because of the Loma de la Lata investment. Of that part, that means, the 2008, 2009, and 2010 credit, we are collecting \$2-3 million per month. We expect and we are asking the government to speed up the payment process, but during the winter here, CAMMESA is with the accounts very stressed because they are paying for the diesel, the fuel, the imports, the LNG. So we expect this collection process to speed up in Spring and Summer.

RC: Ricardo, thank you very much

RT: It was a pleasure. Thank you all, it was a pleasure. I am very grateful to have you at the conference call. Any needs or information, you know you can call us at any time; myself or Mariano Batistella or anybody on the Pampa team.