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Pampa Energía 3Q 2011 Conference Call Transcript

Presenting for Pampa Energía: Ricardo Torres, CEO

Ricardo Torres: Thank you very much. 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 in our webpage.

So let me start with the expansion of Loma de la Lata. As you might know, on November 1st we finally began commercial operation of the expansion at Loma de la Lata, with 165 MW of additional output. This is a new milestone for Pampa, since we have invested for the last years a total of US\$230 million dollars and we are now beginning to see the results of that investment.

Recall that the new electricity generated will be sold to the system at around US\$55 per MWh, much higher than the US\$30 per MWh of the regulated spot price. And also, almost all of the revenue is a fixed payment regardless of the generation of the plant. So we expect an EBITDA from this expansion of around US\$70 to US\$75 million dollars.

From an economic point of view, we are very confident that Loma will be compensated for the delays in the startup. In that sense, we have already recovered US\$18 million dollars from the constructor and we are in the process of collecting the business interruption insurance, among others.

Going to the TGS deal, on October the Argentine Gas Regulator approved the restructuring of the debt of its holding company CIESA, so now the only thing left is the approval of the Anti-Trust Authorities. In that sense, we are very optimistic that the approval could be achieved during this year.

As a reminder, recall that after the restructuring we will own a 30% indirect stake in TGS. Also, we will be entitled to US\$71 million dollars coming from the proportional stake of the US\$240 million dollars dividend paid by TGS some months ago. And on top of that, we are entitled to US\$15 to US\$20 million dollars more of technical fees collected during the last four years by Petrobras, which will be paid to us as part of the agreement.

Going to the distribution sector, on September we agreed to sell Edenor's indirect stake in Edesal, the distribution company of the province of San Luis, to Rovella and of Edelar, the distribution company of the province of La Rioja, to Andes Energía. Both sales are subject to the completion of the spinoff of Emersa, by which the four operating companies currently owned by Emersa will be assigned each to a new holding company.

The price for the 78% indirect stake of Edenor in Edesal was US\$27 million, which have already been paid by Rovella. As a consequence, the board of directors of Edesal is currently designated by Rovella, with the exception of one director that has been appointed by Edenor until the spinoff of Emersa is completed.

The price for the 78% indirect stake of Edenor in Edelar was US\$22 million, including US\$1.5 million already paid by Andes corresponding to the option granted to Andes to structure this transaction.

Finally, and also subject to Emersa's spinoff, Pampa agreed to acquire Edenor's 78% indirect stake in the 30 MW thermal power plant Piquirenda for US\$11 million. Remember that this power plant was built by Emersa during 2008 to 2010, and was acquired by Edenor with the rest of the distribution companies. The purpose of this acquisition was to allocate this generation asset in Pampa, together with the rest of the generation assets.

Finally, moving to debt issuances, last month Piedra Buena and Petrolera Pampa issued short term peso debts for AR\$56 million pesos and AR\$47 million pesos, respectively. Both accrue an interest rate of Badlar Privada plus 350 basis points, and mature bullet in one year. We are very proud of the access of Petrolera Pampa to the capital markets, being one of the youngest companies in the oil and gas market.

Now going to the results of the third quarter of 2011, we presented an adjusted EBITDA of AR\$263 million pesos, 10% higher than the AR\$239 million for the same period of 2010. This was given by a 27% increase (or AR\$41 million pesos) in the distribution segment and AR\$5 million pesos of lower losses at the holding level, partially compensated by a 27% reduction (or AR\$17 million pesos) in the generation segment and a 15% reduction (or AR\$5 million pesos) in the transmission segment. Nevertheless, recall that the distribution segment includes in 2011 the consolidation of Emersa and Eden, which added an EBITDA of AR\$107 million pesos. Without that effect, the distribution segment's EBITDA would have fallen 43% in this quarter and Pampa's overall EBITDA would have fallen 35%.

Also, have in mind that we are still not consolidating TGS, given that the restructuring of CIESA's debt has not been finalized yet, as I mentioned before.

The lower EBITDA at our generation segment was mainly given by a 46% reduction in the generation of our hydro plants, caused by less water available in the system, and a 31% reduction in the generation of Loma, given by less natural gas availability. Nevertheless, with the beginning of the commercial operation of the expansion of

Loma achieved some days ago, the situation of natural gas scarcity has changed, given that we are now capable of burning gas plus and passing that cost to the system. Finally, our generation segment EBITDA was also affected by increases in labor costs due to local inflation.

The lower adjusted EBITDA at our transmission segment was affected mainly by lower collections from CAMMESA related to the 2005 to 2010 cost recognition agreement signed last year. Recall that last year; Transener and Transba agreed a cost recognition of around US\$100 million dollars, of which US\$42 million have been collected as of the third quarter of 2011.

With respect to the distribution segment, and as I mentioned before, adjusted EBITDA increased AR\$41 million pesos given by the incorporation of Emersa and Eden, which was partially offset by a reduction in Edenor's EBITDA due to higher costs.

Finally, our holding segment had a lower loss at the EBITDA level thanks to the beginning of operations of Petrolera Pampa, which added AR\$3 million pesos of EBITDA in this quarter. Even though it's a different business, we are including Petrolera Pampa in the holding sector because it's still of small significance. In the future we expect to provide more information about this segment on a separate base.

Net income for the third quarter of 2011 amounted to a loss of AR\$102 million pesos, compared to zero in the same period of 2010. The reduction in this quarter's net income was mainly given by higher financial expenses, first, given by a AR\$27 million pesos loss on Edenor's shares held in portfolio by the holding, and second, by an increase in interest expenses and currency exchange differences due to the consolidation of Emersa 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 with tariff renegotiations, as you all know the government started last week to reduce subsidies for electricity and natural gas to big industries. This reduction in subsidies does not improve the income of our business, but we expect this to be a first step towards the recognition of higher tariffs for the companies to compensate for inflation. And overall, we believe this measure to be appropriate in that it is cutting subsidies to industries and companies that have the possibility to pay the real cost of electricity, with no need of assistance by the government.

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.

Closing Remark: Thank you all for participating in the call and, as always, anything you need just call us. Good morning.