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Pampa Energía Q2 2018 Conference Call

Presenting:

Lida Wang, Investor Relations Officer at Pampa Energía

Good morning everyone and thank you for joining our conference call. We'll briefly go through every business segment reviewing the quarter's key figures and the latest events since our last call in May, and then head straight to Q&A. As you know, you can always reach us out for more details on the results or any doubts you might have.

Remember as from 2018 and for the comparative periods, we are redistributing corporate expenses among the operating segments – that is, power generation, oil and gas and petrochemicals. Also, we are not considering divested assets at oil and gas and refining and distribution segments, which are reported as discontinued operations.

So, as you can see on slide 4, beginning with the adjusted EBITDA, in the second quarter of 2018 we recorded 7.5 billion pesos, 134% more compared to an EBITDA of 3.2 billion pesos in the same period of 2017.

The large variation was due to increases of 1.6 billion pesos in power generation, 1.2 billion pesos in electricity distribution, 486 million pesos in oil and gas segment, 44 million pesos in petrochemicals segment and 926 million pesos in holding and others plus intersegment eliminations, partially offset by a decrease of 49 million pesos in refining and distribution.

The higher EBITDA of 1.6 billion pesos at our power generation segment was mainly given by the large Peso devaluation experienced since May of this year, therefore impacting our all our power generation sales, which invoices in dollars, in addition to the full fare billing since November 2017 for the legacy capacity, which currently is 75% of our total 3.9 GW installed capacity. In Q2 2017 we were remunerated under a lower fare (minimum and base) as the new legacy scheme was implemented gradually throughout 2017.

Moreover, higher dispatch at Pichi Picun Leufu because of the raining season and new power generation also contributed to the EBITDA, that on top of new PPAs invoicing in Parque Pilar, Ingeniero White and Loma de la Lata, since June of this year we commissioned our first wind farm Mario Cebreiro for 100 MW, which is also the first project of this size and using this technology to reach such a milestone under the RenovAr 1 tender. Pampa invested a total of 139 million dollars and we are proud to say the commercial operation date was achieved before the date originally stipulated in the PPA, showing our full commitment to the four projects we commissioned to the date. On July 20 we achieved the generation record of 2.3 GWh, showing a load factor beyond 50%.

The increases were partially offset by lower dispatch request at Piedra Buena and the open cycle turbine in Genelba power plant, plus lower generation at Diamante hydro power plant because of low water flow.

Also, we managed to maintain an outstanding availability rate of 98% with increased installed capacity, in comparison with 86% achieved in the same quarter of last year, this improvement is basically explained by



Piedra Buena's poor performance during last year's outages from maintenances and also new units' operation reliability.

Before I move on from power generation, I wanted to give you a quick update of our expansion projects. We began in Q4 last year with Genelba's closing to CCGT for 383 MW as soon as we got awarded, and as you can see in the picture in slide 7 we finished setting up the ground and started to set the foundations for the new turbines. This plant will be operating as open cycle in Q2 2019 adding 187 MW and as combined cycle in Q2 2020, adding another 196 MW.

On the renewable front, we began with the construction of Pampa Energía number 2 and 3 wind farms for 106 MW, which COD is set second quarter of next year. In Parque Eólico Pampa Energía or PEPE number 2 as we call them, internal roads were finished and we started to build the foundations of the poles. In PEPE number 3 we are building the internal roads and the platform to place the power transformer station.

In May we announced a third wind farm expansion project named PEPE number 4 for 50 MW of installed capacity, which is located in Las Armas area, in the Buenos Aires province, and will demand additional investment of 74 million dollars. Remember that the electricity generated from this three wind farms will be sold to large users through private PPAs, targeting their need to comply with the National Renewables Law.

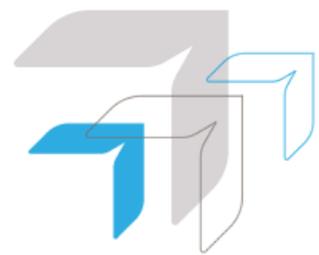
Moving on briefly to the distribution segment which was previously reviewed by Mr. Montero yesterday in Edenor's earnings call, as shown in slide 9 during the second quarter of 2018 the EBITDA increased by 1.2 billion pesos compared to the same period of 2017, mainly because of the full fare billing on the distribution tariff granted within the comprehensive review (RTI as we call it) as from February 1, 2018, plus the cost variations recognized in August 2017 and February 2018 of cumulative 25%. Additionally, Edenor invoiced another 3 installments generated by the gradual application of 2017's tariff increase for 395 million pesos.

These positive variations on Edenor's EBITDA were offset by the increased losses, showing 18.6% in the second quarter 2018 compared with 17.2% for the same period 2017, mainly explained by the colder weather in the area. Its associated cost increased by 99% year on year due to the application of the new seasonal price that, by the way, is still subsidized compared to the full cost of generation. The Ministry of Energy announced that as from August 1, seasonal price of electricity will be raised from 1,100 pesos per MWh to 1,470 pesos per MWh for residential and SMEs, while large users in distribution grid were raised to 2,283 pesos per MWh.

Though overall electricity sales did not experience significant changes, the EBITDA decrease is also explained by the decline in SMEs demand in line with the economic downturn, partially offset by the stable consumption behavior in residential and aggregated large users consumption, mainly due to elasticity demand to tariff increase but low temperatures compared to Q2 17 also impacted in their consumption behavior.

In line with our actions for energy recovery, we experienced a 3% increase year on year of registered clients, mainly because of the installation of special Inclusion Meters to foster self-management consumption and the integration of users having a non-regular income.

Last in electricity distribution, on July 31 Edenor agreed with the Ministry of Energy to defer 50% of the cost variation adjustment, without this implying a negative economic impact for Edenor or affecting the service quality parameters resulting from the RTI. Therefore, the calculated cost variation was 16%, being 8% applicable as from August 1 and the balance in six monthly consecutive installments as from February 1, 2019, which shall be adjusted to the applicable cost variation index on that date. As part of the agreement to defer half of the cost variation increase, the Ministry of Energy agreed to carry out the necessary actions towards the regularization of the outstanding regulatory asset and liability issue. It also agreed to promote the pending issues related to the energy consumption in shantytowns, known as Framework Agreement.



In the oil and gas segment, please note we will only talk about continuing operations. In the second quarter of 2018 we posted an adjusted EBITDA of 2.1 billion pesos, 31% higher than in Q2 2017. The EBITDA considers the crude oil utility company OldelVal's EBITDA adjusted by our 23.1% ownership, which contributed 53 million pesos, and the positive variation is mainly due to the effect of the peso devaluation over the oil and gas dollar-link sales prices, in addition to a higher oil price in dollars, partially offset by lower crude oil production due to the service termination at Medanito La Pampa block and lower accrual of Plan Gas second generation.

We refer to Plan Gas second generation to the incentive program in force since 2013 and that expired in June 30, 2018. All former Petrobras Argentina's blocks were included within said program, while former Petrolera Pampa were included in the Plan Gas first generation, that one ended in December 2017.

Our overall production in Argentina in Q2 2018 declined 6% compared to Q2 2017, explained by lower crude oil production, and reaching 45.9 thousand barrels of oil equivalent per day, which 90% is composed by 247 million cubic feet per day of natural gas and the remaining 10% of the production by 4.8 thousand barrels of crude oil per day.

Regarding the gas production, in Q2 2018 it remained stable year on year, and equal quarter on quarter, mainly due to the increase in the drilling activity at El Mangrullo, Río Neuquén (which also recently increased its evacuation capacity) and shale development at Parva Negra Este blocks, offset by the natural decline and a lower drilling rate at Rincón del Mangrullo block.

During second quarter 2018 our accrued weighted average sales price was 5.5 dollars per million BTU, of which 12% was contributed by the Plan Gas second generation subsidy. This price is 14% lower than the same period in 2017, as the Company decided not to accrue Plan Gas second generation compensation corresponding to former Petrolera Pampa blocks until the Ministry of Energy issues the formal approval. It is worth mentioning that after merging former Petrolera Pampa into Pampa Energía, being Pampa the continuing company as from October 2017, the Company carried out all the necessary proceedings to include former Petrolera Pampa's blocks into Pampa's Plan Gas second generation. We are convinced that we are entitled to the incentive. However, in light of recent economic developments in the country as well as the new restrictions to fiscal policy binding in the IMF agreement, the management prefers to take a more conservative approach until the resolution is actually issued. We expect to get approved because we understand all conditions requested by the Program have been met. So in that case, we would accrue 729 million pesos for the six-month period of 2018 and the Q2 18 accrued average sales price for gas would be 6.1 dollars per MBTU.

This negative effect was partially offset by 70% year on year increase in Plan Gas second generation accrual because of Peso devaluation and also from higher incremental production at Pampa's El Mangrullo and Río Neuquén blocks.

In the oil side, the decline in production of 2.6 thousand barrels per day responds mainly to the end of Petrolera Pampa's service at Medanito La Pampa block, partially offset by higher production at El Tordillo block, as during Q2 2017 this block was affected by weather conditions. During Q2 2018 the crude oil sales price increased year on year by almost 11 dollars, reaching to 63.2 dollars per barrel, because the domestic price now correlates with the international price of barrel – the Brent.

Keep in mind that Pampa's Plan Gas second generation ended on June 2018. To the date, we are not recording any incentive plan. So, to qualify to Resolution 419 aka Plan Gas for unconventional resources, we needed our four key gas blocks to be categorized as unconventional though a 35-year extension in the exploitation license.

The block Río Neuquén obtained such extension in 2016, also Rincón del Mangrullo in 2017 and in that sense, in June and July El Mangrullo and Sierra Chata blocks were granted 35-year unconventional exploitation



concessions by the Province of Neuquén. The committed investments during the next 5 years are 205 million dollars at El Mangrullo block and 520 million dollars at Sierra Chata block, aiming to continue developing tight gas at Mulichinco and Agrio formations and explore the shale gas potential of Vaca Muerta formation. Remember that Sierra Chata block's figures are at 100%, and Pampa's contribution is according to its stake, which is 45.55%. El Mangrullo is 100% owned by Pampa. Both El Mangrullo and Sierra Chata are operated by Pampa.

Pampa Energía has filed its application for the New Plan Gas for unconventional resources. Once we get approved by the Ministry of Energy, we will start recording the compensation in our P&L retroactively for the period approved. Neuquén province has already approved our gas projects in El Mangrullo, Río Neuquén and Sierra Chata blocks, therefore Ministry of Energy's clearance is pending for these blocks; and we are awaiting approval from the Neuquén province for the Rincón del Mangrullo block as we had to resubmit the filing.

During the second quarter of 2018 we continued with our investment budget plan, which was downward adjusted due to the delay in the granting of Sierra Chata and El Mangrullo blocks' unconventional exploitation concession. Therefore, we are budgeting for the year 65 wells to be drilled and 69 to be completed, being in both cases still more than 50% targeting unconventional gas. As of June 2018, 33 wells were drilled and 28 were completed, expecting an acceleration in the drilling activity onwards. Our focus is the development of blocks with tight gas reservoirs, which are available at El Mangrullo, Río Neuquén, Sierra Chata and Rincón del Mangrullo. In these blocks, during Q2 2018 we drilled 12 tight gas wells and completed 5. Hence, Q2 18 gas production run rate kept very similar to the past quarters performance.

In addition, regarding our shale activities, as a result of the aforementioned license extensions, we will start our drilling campaign to Vaca Muerta formation at El Mangrullo and Sierra Chata blocks. We've already hired a dedicated drilling rig of 7,500 PSI for three years, extendable for two additional periods of three years.

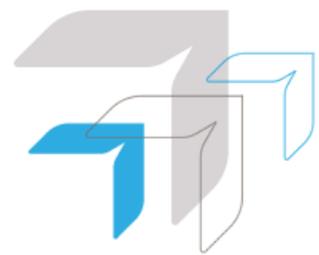
Finally, among other news on oil and gas segment, on August 1 the Ministry of Energy through Resolution 46/2018 set a new reference price for natural gas destined to power generation, fixing it at a weighted average price of 4.2 dollars per MBTU, being 4.42 dollars per MBTU for the gas from Neuquina Basin. As of today, the Company is analyzing its impact and implementation.

In the refining and marketing segment, we will only comment our continuing operations as the discontinued were gone on May 9 when Pampa closed the divestment to Trafigura. The EBITDA in this segment is basically Refinor's EBITDA adjusted by 28.5% ownership, which registered a loss of 29 million pesos in Q2 18, compared to an EBITDA gain of 20 million pesos recorded in the same period of 2017. This decrease is attributable to the decline in refining margin, as a result of higher crude oil costs in dollars and the difficulties in passing through the peso devaluation over the refined products price.

In petrochemicals, we posted an adjusted EBITDA of 45 million pesos during the second quarter of 2018, 44 million higher compared to the same period in 2017, mainly due to higher international pricing references, denominated in US dollars, partially offset by lower sales volume and higher operating and raw materials' costs, also mostly denominated in US dollars. The adjusted EBITDA does not consider a contingencies' update with customs for 125 million pesos.

In operating terms, total sales volume of our petrochemicals segment decreased by 11% in Q2 18, totaling 95 thousand tons compared to Q2 17 but 9% higher quarter on quarter. This decrease mainly responds to the halt in the reforming plant as Oil Combustibles is out of business and is not delivering the virgin naphtha, resulting in lower production of reforming products for domestic sales but partially offset by higher export sales of styrene products and SBR.

Finally, our holding and others segment presented an adjusted EBITDA of 1.4 billion pesos in the second quarter of 2018, compared to 420 million pesos in the same period of 2017. This is mainly due to the adjusted



EBITDA by ownership from TGS and Transener, the higher income from fees and lower expenses as they've been redistributed between the operating segments.

TGS's EBITDA adjusted by our indirect stake of 25.5% contributed to Pampa almost 1 billion pesos in the quarter from an implicit total of 3.8 billion pesos, significantly higher compared to Q2 17, mainly due to the tariff increase resulting from the RTI for gas transportation business, being implemented the full adjustment plus PPI adjustments in December 2017 and April 2018. Moreover, the margin improvement in the liquids processing segment, which was due to higher dollar prices and local sales volumes, contributed to the EBITDA's performance in TGS.

The adjusted EBITDA in Q2 18 excludes the charge for arbitration award of 553 million pesos, as a result of a claim made by Pan American against TGS back in 2015, in which they originally claimed 306 million dollars but got awarded by ICC 21 million dollars, interests included.

Moreover, on June TGS was granted a second tranche to the concession to build and operate a gathering gas pipeline crossing different blocks in the Vaca Muerta formation. The South Tranche will add 20 miles' length and 0.8 bcf per day of transportation capacity, and will demand an investment of 41 million dollars. Therefore, the total Vaca Muerta project will have a 68 miles long pipeline, with a transportation capacity of 2.1 bcf per day, 300 million dollars' investment and should be commissioned by second quarter next year.

Also, TGS dropped the lawsuit against the Federal Government before the ICSID, as a condition of the RTI.

In the case of Transener, its EBITDA adjusted by our indirect shareholding of 26.3% contributed 313 million pesos in the second quarter of 2018, from an implicit total of 1,189 million pesos, 40% higher than same period in 2017, mainly explained by the application of RTI tariff scheme in only one installment as from February 2017, the reconsideration awarding on October 2017 and the cost variations update in August 2017 and February 2018 of 24% cumulative.

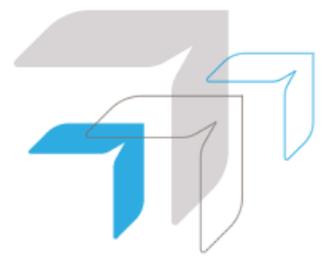
In July the Electricity Regulator announced the Comprehensive Tariff Review for the independent power transmitters, among them TIBA (operated by Transener's subsidiary, Transba), the Fourth Line (operated by our subsidiary Transener) and Enecor (a subsidiary of Pampa). They had 30 days to fulfill with the required information for the RTI and we requested an extension.

Moving to the latest news in the segment, regarding the merger of former Petrobras Argentina, we finally swapped the outstanding 10% of Petrobras Argentina shares into Pampa's. Also, we got clearance to undertake the second merger collapsing Petrolera Pampa and some power generation companies Loma, Güemes and the hydros' holdcos, issuing additional 144 million ordinary shares or 5.8 million ADRs.

Moreover, the Company fulfilled the 200-million-dollar share buyback program announced in April 27, and in June 22 launched a second 200 million dollar program. Keep in mind we can only repurchase 10% of our issued share capital. As of today, the Company repurchased 5.7 million ADRs at an average price of 45.20 dollars per ADR, using the full first program and 28% of the second program.

Therefore, next Wednesday after performing the outstanding merger swap, the final issued share capital will amount to 2,083 million shares or 83.3 million ADRs of Pampa which, net of repurchases as of yesterday, will be 1,941 million shares or 77.6 million ADRs.

In terms of net income attributable to the owners of the Company, Pampa presented a consolidated loss of 2.7 billion pesos in the first quarter of 2018, compared to 91 million pesos in the same period of 2017. This is mainly explained by the accrual of 11.3 billion pesos' losses due to 43% of peso depreciation against US dollar in the quarter, partially offset by better pricing as a result of tariff reviews, increases in remuneration and FX effect.



Finally, moving on to news related to debt in slide 16, we must again highlight the low leverage of the Company compared to other peers in the same industry and within the country, as a result of an active liability management.

As of June 30, 2018 the consolidated gross debt including affiliates at ownership stayed at 2.3 billion dollars, of which 95% is denominated or linked with US dollar and 81% is placed at the parent. As we did with the corporate expenses, in our Earnings Release you can see how we are redistributing the debt and cash among our operating businesses at the parent to properly reflect their capital structure. The average interest rates are 6.9% in dollars and 24.9% for peso debt; average life is 5.3 years.

Cash netting the share buyback after Q2 18 closing amounts to 1.1 billion dollars, which is down from the 1.6 billion dollars in March 2018, mainly because of the share repurchases of 256 million dollars we've done so far, coupon payment of 50 million, some expansion capex disbursements and devaluation of our peso cash position. Now we are holding 2/3 of our cash in US dollars. Therefore, net debt is 1.2 billion dollars.

So this concludes our presentation. Now, I will turn the word to the operator, who will open the floor for questions. Thank you.