



Pampa Energía Q3 2018 Conference Call

Buenos Aires, November 13, 2018 (10 am Eastern Time)

Presenting: Lida Wang, Investor Relations Officer at Pampa Energía

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

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

And also before we begin, please bear in mind that our financial statements are prepared according to IFRS but not adjusted by inflation, so the large depreciation of the peso against US dollar affects entirely to our financial liabilities and therefore squeezes our equity net worth. This interim reporting is following local GAAP because in Argentina there's an Executive Order that forbids inflation-adjusted reporting, therefore the Company could not apply the IFRS International Accounting Standard number 29, which provides that entities with high inflation functional currency, defined as cumulative inflation rate over a three-year period approaching or exceeding 100%, shall state financial information in terms of the measuring unit current at the end of the reporting period. However, there is a law project that renders ineffective said Executive Order and currently holds approval of the Argentine National Congress' Lower House. Should inflation-adjusted reporting standards applied, and considering a cumulative inflation rate of 32% and an average inflation rate of 16% for the nine-month period of 2018, the equity estimated by the Company would amount to 38 billion pesos instead of the 750 million pesos reported under nominal terms in our balance sheet.

So, moving on to the quarter's figures as you can see on slide 4, we are again delivering strong results and operating metrics despite the challenging quarter we experienced, with a second large FX variation in the year marking a 43% quarter on quarter peso devaluation, inflation soaring and gradual de-regulation of the industry.

Beginning with the adjusted EBITDA, in the third quarter of 2018 we recorded 9.1 billion pesos, 108% more compared to an EBITDA of 4.4 billion pesos recorded in the same period of 2017. The large variation was due to increases of 2.1 billion pesos in power generation, 1 billion pesos in electricity distribution, 567 million pesos in oil and gas segment, 94 million pesos in refining and distribution and 1.1 billion pesos in holding and others plus intersegment eliminations, partially offset by a decrease of 175 million pesos in petrochemicals.

The 3.5 billion pesos EBITDA at our power generation segment was mainly given by the large Peso devaluation, impacting our power generation sales invoiced 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 Q3 2017 we were remunerated under a lower fare, as the new legacy scheme was implemented gradually throughout 2017.

The new power generation from Parque Pilar, Ingeniero White, Loma de la Lata and wind farm Mario Cebreiro not only contributed to the EBITDA since all of them are billing PPAs signed with CAMMESA, but also the contributed the energy generation in Q3 2018 along with the higher dispatch at Pichi Picun Leufu hydro power plant due to raining season, though consolidated generation remained slightly lower year on year, being positive variations offset by lower dispatch at Piedra Buena and the steam turbines in Güemes, technical outages at Genelba and lower generation at Mendoza's hydro power plants because of low water flow.



Also, we highlight that we manage to maintain an outstanding availability rate of 94.2% with an increased installed capacity, slightly lower than the 94.7% availability achieved in the same quarter of last year, mainly because of Genelba's out of service, partially offset by new units reliability and improvements at Piedra Buena.

Moving to news in power generation, on November 6 the Secretariat of Energy Government published Resolution 70, by which gencos are authorized to acquire fuels for their own power generation. This resolution is a step forward in the normalization of the industry, by de-centralizing fuel procurement by CAMMESA, atomizing fuels market and achieving tax efficiencies and vertical integration between our two core businesses: gas and power. It is worth highlighting that CAMMESA will remain in charge of the commercial management and fuel dispatch for power gencos that 'do not or cannot' make use of said capacity, as well as the PPAs engaged with CAMMESA.

Yesterday the Company started to self-procure gas to our genco units under legacy scheme, and Energía Plus as we always did, supplying from our E&P operations around 180 million cubic feet per day, 75% of our current gas production. The generation cost with self-procured fuel will be valued according to the Variable Production Costs ('CVP') that each genco declares to CAMMESA. In the case of thermal units, the more efficient the unit, the lower the variable cost. CAMMESA ranks all the variable costs in the grid, so lower costs dispatch first.

Before I move on from power generation, I wanted to give you a quick update of our expansion projects. Regarding the closing to CCGT of 383 MW at Genelba, as you can see in the picture on slide 7, at the end of September we mounted the Siemens new gas turbine brought from Germany and we are building all the needed connection infrastructure so this gas turbine can start-up by June 2019 and operate as combined cycle in Q2 2020.

On the renewable front, the construction of Pampa Energía number 2 and 3 wind farms for 106 MW is currently in optimal pace. In Parque Eólico Pampa Energía or PEPE number 2 as we call them, towers, blades and other main components are arriving to the site as we finished to concrete pouring the 14 foundations. In PEPE number 3 we are advancing with the foundations, already concrete pouring 6 out 14.

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 third quarter of 2018 the EBITDA increased by 1 billion pesos compared to the same period of 2017, amounting to 1.9 billion pesos in the quarter, mainly because of the full fare billing on the distribution tariff granted by the comprehensive review (RTI as we call it) as from February 1, 2018, plus the cost variations of cumulative 35% recognized in December 2017, February and August 2018. Additionally, Edenor invoiced another 3 installments generated by the gradual application of 2017's tariff increase for 540 million pesos.

Electricity volume sales contributed to the EBITDA performance increasing 1% year on year, led by residential demand due to colder winter but offset by a decline in large users at wheeling system and SMEs' demand, in line with the economic downturn.

These positive variations on Edenor's EBITDA were mainly offset by the increased energy losses, reaching 20.4% rate in the third quarter 2018 compared with 18.4% for the same period 2017, mostly identified in residential end-users as they consume more electricity when the weather is colder, especially low income users that do not have access to gas distribution grid. Energy cost increased by 133% 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. However, the Under Secretariat of Electric Power established the same seasonal prices as from November.

In line with our actions for energy recovery, we experienced a 3% increase of registered clients compared to Q3 2017, 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 September 15 the Under Secretariat of Electric Power extended the time to regularize the outstanding regulatory asset and liability issue, until the end of November of this year.

In the oil and gas segment, during the third quarter of 2018 we posted an adjusted EBITDA of 2.3 billion pesos for the continuing operations, 33% higher than in Q3 2017, mainly due to the effect of the peso devaluation over the oil and gas dollar-link sales, in addition to higher oil sale price in dollars, partially offset by the expiration of Plan Gas second generation, lower gas sale price in dollars and lower crude oil production due to the service termination at Medanito La Pampa block. The adjusted EBITDA considers our 23.1% ownership in the crude oil utility company OldelVal, which contributed 84 million pesos in the quarter.

Our overall production in Argentina in Q3 2018 declined 10% compared to Q3 2017, reaching 45 thousand barrels of oil equivalent per day, of which 88% is composed by 238 million cubic feet per day of natural gas and the remaining by 5.4 thousand barrels of crude oil production per day.

On the oil side, the decline in production of 3 thousand barrels per day responds to the end of service at Medanito La Pampa block in October 2017, partially offset by a slightly higher production at El Tordillo block in San Jorge basin. During Q3 2018 the crude oil sales price increased year on year by almost 17 dollars, reaching 66.4 dollars per barrel, because the domestic price follows the international price of barrel – the Brent – and Escalante heavy oil discount improved in comparison to Medanito, being 61% of our oil production as Escalante.

Regarding the gas production, in Q3 2018 it slightly declined year on year, and quarter on quarter, mainly explained by the natural decline and a lower drilling rate at **Rincón del Mangrullo** block, offset by the increase in the drilling activity at **El Mangrullo** and **Río Neuquén** blocks. In the case of El Mangrullo block, its evacuation is conditional to expanding the block's processing installed capacity, which commissioning was delayed and will contribute an additional production of around 20% by Q1 2019. In the case of Río Neuquén, in mid-August 2018 the processing capacity was lifted to 194 million cubic feet per day. **Sierra Chata** managed to maintain its production output, but we expect to ramp up next year since two wells will be drilled at the end of the year. Also, the weaker gas demand due to seasonality and economic downturn did not help with the production levels.

During third quarter 2018, our accrued weighted average sale price for gas was 4.5 dollars per million BTU, 28% lower than the same period in 2017, mainly due to the expiration of Plan Gas second generation by the end of June 2018, while in Q3 17, this compensation represented 1.3 dollar over the 6.3 dollar per million BTU of recorded price. Moreover, there was a 9% decline in end-users' sale price, mainly driven by a reduction on the reference price for gas fired at power plants and the subsequent gas tenders on a non-firm basis led by CAMMESA at the beginning of September, which reflected the demand seasonality and the industrial consumption decline because of the economic recession. This drop in prices were partially offset by higher accrual of retail price from gas utility companies (aka gas distCos).

As we mentioned before, on August reference prices were reduced by 20% and aiming to keep reducing the gas prices for power generation, on September 6 CAMMESA launched a gas tender on a non-firm basis to supply a short-term period of September – December 2018. As a result, they received price indications for a total of 5 billion cubic feet per day at a weighted average price at wellhead among all basins of 3.8 dollars per million BTU. Pampa participated in the auction and is selling gas to CAMMESA on a spot basis, but lower amounts as self-procurement of gas was enacted.

However, regarding the accrued prices from distCos during Q3 2018, we also recorded receivables generated by FX difference between spot rate stipulated in the agreements with distCos and those recognized in the final tariffs between April -September 2018, as gas distCos weren't able to immediately pass through the large peso depreciation to its end-users. We are awaiting a resolution from the Secretariat of Energy Government to formalize the collection method announced a few weeks ago.



Also, the gas regulator granted new final tariffs effective from October 2018 to March 2019, in which also considers a price for natural gas as a raw material ranging between 1.74 and 3.98 dollars per million MBTU, including the reduced tariff. So, in light of this, the gas prices agreed under the contracts executed in November 2017 between distCos and Pampa were rendered ineffective, making our gas trading desk to settle prices with distCos on a spot daily basis, currently around 4 dollars per million BTU. We are still selling to large users aka industries, also in a spot basis.

Moreover, in August and September 2018 the Energy Authority issued resolutions establishing a Procedure for the Authorization of Natural Gas Exports, which may consist of sales to overseas from 1 year up to 10 years on a non-firm or firm basis, subject to securing the supply to the domestic market. In case of projects belonging to Plan Gas for unconventional resources, exported natural gas may not be applicable to this program. Pampa has submitted the relevant documentation for the granting of these authorizations, and is currently awaiting their approval.

In addition, in line with the Company's strategy to focus its resources on core businesses, on November 2 Pampa executed an agreement with ExxonMobil for the sale of 21% of the capital stock of Oldelval, a company engaged in the crude oil transportation, keeping a 2.1% equity ownership in Oldelval. The sale price amounts to 36 million dollars, being the closing of the transaction subject to certain customary precedent conditions.

Before I move on from oil and gas, I wanted to give you a quick update of our operations. During the third quarter of 2018 we continued with our investment budget plan of the year for 62 wells to be drilled and 64 to be completed, being in both cases still more than 50% targeting unconventional gas. As of September 2018, 48 wells were drilled and 42 were completed. Our focus is the development of blocks with tight gas reservoirs and the exploration of shale gas potential in Vaca Muerta reservoir, which can be done at El Mangrullo and Sierra Chata. During Q3 2018 we drilled 7 tight gas wells and completed 10.

Finally, regarding our shale activities, once granted the 35-year unconventional exploitation concession, we started our pilot project for the exploration of the potential of Vaca Muerta formation at **El Mangrullo** block. The first shale gas well was drilled during Q3 2018, with a depth of roughly 9.3 thousand feet, and another well begun drilling. These two wells are in the vertical drilling step and belong to two different pilot pads with the purpose of analysis and definition of the landing point in horizontal drilling, which will start by the end of this year for the first well, estimating an horizontal branch of 8.2 thousand feet.

In the case of Sierra Chata block, due to the delay in the granting of the unconventional exploitation concession, as we mentioned before Pampa jointly with Mobil Argentina and Total Austral Argentina Branch, will start with the drilling campaign to Mulichinco formation by the end of this year and next year targeting Vaca Muerta formation.

Since we divested most of the assets at Refining and Marketing, we are going to skip the details, but just to mention that the segment's adjusted EBITDA amounted to 112 million pesos in the quarter, mainly due to the activities at Dock Sud dispatch facility and the proportional EBITDA of Refinor, a company in which Pampa holds a direct participation of 28.5%, for a gain of 28 million pesos.

In petrochemicals, we posted a negative adjusted EBITDA of 155 million pesos during the third quarter of 2018, 175 million lower compared to the same period in 2017, mainly because of lower sales volume, higher labor costs and higher raw materials' costs that are mostly denominated in US\$, in addition the inability to immediately pass through the FX variations on the sale price.

In operating terms, total sales volume of our petrochemicals segment decreased by 32% in Q3 18, totaling 85 thousand tons, mainly to lower availability and cost increase of imported virgin naphtha, impacting on lower sales of reforming products, in addition to a labor strike registered at the polystyrene plant in Zarate and a lower demand of styrene products, due to the increase in international prices.



Finally, our holding and others segment presented an adjusted EBITDA of 1.4 billion pesos in the third quarter of 2018, compared to 357 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 25.55% contributed to Pampa 1 billion pesos in the quarter from an implicit total of 4 billion pesos, significantly higher compared to Q3 17, mainly due to the full implementation of the tariff increase plus recognition of cost variation resulting from the RTI for gas transportation business (three installments of 345% cumulative). Moreover, the margin in liquids processing segment also contributed to the EBITDA's performance in TGS, due to higher dollar prices and sales volumes.

For its regulated business, TGS was granted the third cost variation semiannual update of 19.7% as from October 1, 2018. Said figure is a simple average of the PPI, the Construction Cost Index and the Salary Variation Index, which according to ENARGAS is based on the RTI, that stipulates under certain macroeconomic conditions and circumstances, such as the significant devaluation that took place in April 2018 and considering that the semiannual update is a non-automatic adjustment mechanism, the regulator may use other indexes different from the PPI to determine tariff increases. Since the increase is lower than the requested by TGS at public hearings, which was 30%, TGS is analyzing which further steps to take.

Moreover, in September TGS entered into an ethane sales agreement with PBB Polisur, a subsidiary of Dow Chemical and TGS's sole customer of this product, retroactively effective as from May 2018 and due December 2027. The ethane price is subject to annual delivered volumes and the gas price, among other factors, and the agreement includes take-or-pay and delivery-or-pay ('DoP') commitments for minimum annual quantities.

Also, in September 2018, the Executive Power passed the application of a duty on the amounts exported for the consumption of several products, including natural gas, propane, butane and natural gasoline, effective from September 4, 2018 to December 31, 2020. This exports duty – recorded in pesos - provides for a 4 pesos withholding on each exported US Dollar, with a maximum 12% tax rate.

Finally, on September 6, TGS's Board announced the payment of 1.6 billion pesos in cash dividend, being the total annual dividend paid of 3.7 billion pesos.

In **Transener**, its EBITDA adjusted by our indirect shareholding of 26.3% contributed 331 million pesos in the third quarter of 2018, from an implicit total of 1.3 billion pesos, 70% higher than same period in 2017, mainly explained by the appeal awarding of the RTI in October 2017, semiannual cost variation update in August 2017 and February 2018 (cumulative 24%) and lower penalties (net of rewards).

The third cost variation update is pending since August 2018, so in October Transener, through the Association of Electric Power Transmission Companies of the Republic of Argentina ('ATEERA'), submitted a note before the Electricity regulator claiming the said tariff update.

In October Transener, Transba and Enecor submitted the information on costs, investments and tariff expectations pursuant the RTI process launched by the electricity regulator.

Moving to the latest news in the segment and regarding the share repurchase program, on October 23 the last transaction was made as we reached the legal limit of 10% of the issued capital in treasury shares. Consequently, throughout two programs and over a period of six months, 203 million common shares or 8 million ADRs were repurchased, with a total disbursement of 328 million dollars. On October 2 the Extraordinary General Meeting of Shareholders of Pampa approved the cancellation of 183 million ordinary shares of Pampa in treasury, which represent 8.8% of the issued capital. The withdrawal of the repurchased shares from the capital stock provides the Company with the possibility to continue repurchasing shares in the market, always if it is accretive for shareholders.



Besides shares, in view of the gap between the value of the Company and subsidiaries' assets vis-à-vis its quotation price, and taking into consideration our strong cash position, between August and September 2018 Pampa also repurchased Series 1 Corporate Bond maturing bullet in 2027 for a face value of 9 million dollars, and at an average clean price of 79.2 dollars, 346 thousand ADRs of Edenor at an average price of 26.5 dollars per ADR and 78 thousand ADRs of TGS at an average price of 12.5 dollars per ADR.

In terms of net income attributable to the owners of the Company, Pampa presented a consolidated loss of 7.1 billion pesos in the third quarter of 2018, compared to a profit of 1.3 billion pesos in the same period of 2017, mainly explained by the accrual of 17.4 billion pesos FX loss due to 43% peso depreciation against US dollar in the quarter, currency in which most of the Company's financial liabilities are denominated, whereas the financial statements reports in pesos without inflation adjustment. This was partially offset by better pricing as a result of tariff reviews, increases in remuneration and FX effect.

Finally, moving to slide 15, we must highlight the low and well spread leverage of the Company, as well as a solid cash position held compared to other peers in the same industry and within the country. Proactive cash and liability management has paid off, especially with the challenging environment we are currently experiencing. In line with the Company's policy, during Q3 2018 we continued refinancing or redeeming the short term facilities.

As of September 30, the consolidated gross debt including affiliates at ownership stayed at 2.3 billion dollars, of which 98% is denominated or linked with US dollar, bearing an average interest rate of 6.9%, and 80% is placed at the parent. Most of the principal maturities between 2018 and 2019 belong to Pampa stand-alone, which amounted to 285 million dollars in Q3's closing, 11 million dollars less than last quarter's closing, and in an acid scenario the 500 million dollars cash at the parent can upfront this maturities comfortably.

Moreover, cash netting the share buyback after Q3 18 closing amounts to 838 million dollars, which is down from the 1.1 billion dollars in June 2018, mainly because of the share repurchases, expansion capex disbursements and devaluation of our peso cash position. Back in Q3 2018 closing we were holding 70% of our cash in US dollars. Therefore, net debt is 1.4 billion dollars, and net debt to last twelve months EBITDA remained low at 1.2 times.

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