

Pampa Energía Q4 2018 Conference Call

Buenos Aires, March 12, 2019 (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 November. Today our CEO Gustavo Mariani is joining us for Q&A session, but you can always reach us out for more details on the results or any questions you might have.

Let me start by reminding you that this quarter our financial statements follow the International Accounting Standards number 29, meaning all figures reported are adjusted by inflation. However, exceptionally the convenience of the reader, fourth quarter financial information we are going to discuss today is disclosed and explained in nominal terms, as we used to do. In the earnings release we disclosed annual figures both under current and constant currency, so investors can assess the impact in their analysis.

So, before we go to the quarter's figures, on to slide 4 we wanted to make a quick stop by reviewing the full year's financial highlights. 2018 was a challenging year, but the Company kept consolidating the portfolio of assets so we could fit to our core strategy better.

Revenues were maintained in similar levels to 2017, increasing by 3% despite the 100%-peso devaluation we witnessed last year. While 50% of our sales were dollar-linked, in EBITDA terms almost 70% came from dollar-denominated core businesses, mainly gas and power, which contributed to deliver a 1.1 billion dollars EBITDA, growing 31% year on year. The depreciation of the peso affected our utilities' businesses, which shrink their share at our EBITDA as their inflation-adjusted revenues couldn't catch up with the deval. E&P business also got hit because decline of lower gas prices in dollars and hydrocarbons production. Today power generation leads the share at Pampa's EBITDA, thanks to new power plants commissioning and our PPAs performance.

Despite the adverse market conditions, Pampa achieved the record of level of investments made in the company's history and in Argentina, having the parent company and its subsidiaries at 100% disbursed a total of 1.1 billion dollars of capex. Pampa stand-alone spent 540 million dollars, of which expansions cover a total of 300 million.

Now, moving to the quarter's figures, as you can see on slide 5, the adjusted EBITDA in the fourth quarter of 2018 recorded 6.8 billion pesos, 87% more compared to an EBITDA of 3.7 billion pesos recorded in the same period of 2017, but 12% lower in dollar terms, mainly explained by electricity distribution and E&P performance, partially offset by our power generation business and our affiliate TGS's contribution.

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 commissioning of new power plants with PPA I mentioned before and the full fare billing since November 2017 for the legacy capacity, which currently is 75% of our total 3.9 GW installed capacity. In Q4 2017, October 2017 was billed under a lower capacity charge.

Generation was 23% higher year on year mainly because in the same period of 2017 we had major outages at Genelba's combined cycle, that was fixed by the beginning of 2018, and the replacement of the last blade wheel at Loma's steam turbine, enhancing the plant's installed capacity by 15 MW as from January 2018. These positive variations were partially offset by lower dispatch at Güemes, Parque Pilar and Piquirenda thermal power plants, in addition to lower water input for our hydroelectric units.



Also, we highlight that we managed to post an outstanding availability rate of 98% with an increased installed capacity, higher than the 87% availability achieved in the same quarter of last year, mainly because of the rehabilitation of Genelba's outage and new units reliability.

Moving to news in power generation, on March a new remuneration scheme for legacy capacity was published, denominated in US Dollars and basically affecting thermal plants by reducing to 5.5 thousand dollars per MW-month the capacity charge during the off-peak season, which is 6 months in the year, so the capacity is no longer flat. Also, capacity charge will be weighted by the unit's utilization factor, on top of the availability performance that already weight in the power capacity remuneration. Also, thermal O&M was reduced by US\$1.4 per MWh.

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 beginning of March the new gas turbine is assembled and in the last stage for commissioning by June of this year, in addition to the rest of the infrastructure advances which are ahead the original schedule.

On the renewable front, the construction of Pampa Energía number 2 and 3 wind farms for 106 MW are currently in optimal pace. In Parque Eólico Pampa Energía or PEPE number 2 as we call them, 14 wind generators are installed, of which 7 are awaiting to be connected to the high voltage grid and begin testings for commissioning. In PEPE 3, foundations were finalized and we are in the midst of mounting the 14 wind turbines, which we expect to finish by the end of April.

Moving on briefly to the distribution segment which was previously reviewed by our CFO at Edenor Leandro Montero yesterday in their earnings call, as shown in slide 9 during the fourth quarter of 2018 the EBITDA decreased by 653 million pesos compared to the same period of 2017, amounting to negative 114 million pesos in the quarter, mainly because of low demand of electricity, which was not expected in the peak season, due to mild weather, lower economic activity and price-demand elasticity, plus higher operating costs and energy losses that outpaced the granted tariff and inflation adjustments.

Energy losses reached 17.1% rate in the fourth quarter 2018, 70 basis higher than the 16.4% 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 91% 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 an increase in the seasonal prices in February, May and August of this year. Also in March, Edenor got a tariff adjustment for 32%, which reflects inflation adjustment and the deferred adjustment agreed last year.

Lastly, last week Edenor got their concession transferred from national regulator ENRE to Province and City of Buenos Aires. This change shouldn't imply any changes in our license agreement that matures in 2087, nor tariff schemes set forth in the last comprehensive tariff review, among other matters; however, the new regulatory agency has not yet been set up and we are still working on settling pending issues such our legal claim against the federal government for not complying with the MoU signed back in 2006, social tariff, shantytowns consumption.

In the oil and gas segment, during the fourth quarter of 2018 we posted an adjusted EBITDA of 1.8 billion pesos for the continuing operations, 39% higher than in Q4 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 lower gas sale price in dollars, the expiration of Plan Gas second generation in July 2018, and lower hydrocarbon production.

Our overall production in Q4 2018 declined 9% year on year, reaching to 42.5 thousand barrels of oil equivalent per day, of which 87% is composed by natural gas.



Regarding the gas production, the quarter reached an average of 222 million cubic feet per day, 9% lower than Q4 17 and 7% lesser quarter on quarter, mainly explained by lower demand, which is highly seasonal and kind of affected by economic downturn, combined with oversupply of gas driven by the disruption of shale developments, specifically those under the Unconventional Gas Plan. These effects affected on **Rincón del Mangrullo** block with a lower drilling rate and natural decline and delayed drilling activity at **Sierra Chata**, both offset by the production increase at **El Mangrullo** and to a lesser extent, at **Río Neuquén**, which continued with the development of tight gas reserves and investments in facilities. In the case of El Mangrullo block, a gas pipeline connecting to Rincón del Mangrullo block was built in order to take advantage of this block's processing plant. Moreover, it is worth mentioning that as of today Pampa's gas production is again at the level of Q4 2017, currently producing between 260 and 280 million cubic feet per day, mainly coming from El Mangrullo block by the installation of an Early Production Facility and agreement with YPF to use Rincón del Mangrullo's facilities, so we are able to evacuate more gas.

The fuel self-procurement for power generation also helped to recover gas production levels; though does not improve pricing, helps to have a certain offtake especially during weak demand periods and to monetize some synergies between power and gas segments. In December the fuel-self procurement was extended to power plants under PPAs. However, if a power plant makes use of this capacity but does not have fuel at the moment of dispatching, reductions will be applied to its remuneration. Additionally, CAMMESA was instructed to apply new maximum gas reference prices, this would be the fourth successive reduction since August last year, recognizing within the Variable Production Costs the price that would have resulted if all the domestic gas had been acquired by CAMMESA.

On the oil side, the slight decline in production from 5.9 to 5.4 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 with increased activities and Río Neuquén block with higher production of condensate due to developments of zones with a better liquid and gas relation, thus increasing gas production as well. During Q4 2018 the crude oil sales price increased year on year by 6.4 dollars, reaching 60.3 dollars per barrel, because the domestic price follows the international price of barrel – the Brent – and Escalante heavy oil narrows Medanito prices, being 61% of our oil production as Escalante.

During fourth quarter 2018, our accrued weighted average sale price for gas was 3.4 dollars per million BTU, 45% 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 Q4 17, this compensation represented 1.6 dollar over the 6.2 dollar per million BTU of recorded price. Moreover, there was a 27% decline in end-users' sale price, mainly driven by a reduction on the reference price for gas fired at power plants and the gas tenders on a non-firm basis conducted by CAMMESA at the beginning of September 2018, which reflected the demand seasonality and excess of supply, which also impacted negatively the commercialization in industrial segment. This drop in prices were partially offset by higher accrual of retail price from gas utility companies (aka gas distCos).

In addition, on January the State Secretariat of Energy informed gas producers affected by the Unconventional Plan Gas, including the Company, that no new projects will be approved. Our three blocks applied timely and got to the short list pending of federal approval: Río Neuquén, El Mangrullo and Sierra Chata blocks. The Gov't will evaluate a new encouragement scheme during winter season, which was disclosed last week but no formal resolution is in place.

In February a gas tender took place but on a firm basis and for gas distCos. This is the first market indication with take or pay or deliver or pay conditions, though only for 12 months; bidders were requested to submit seasonal quantities but with one price. Price indications for a total awarded volume of 1.3 billion cubic feet per day in winter season at a weighted average price of 4.62 dollar per million BTU, out of which, 83% corresponded to the Neuquina Basin. Pampa tendered and was awarded above the average price.



Before I move on from oil and gas, I wanted to give you a quick update of our operations. As of December 2018, we closed the year with 59 wells drilled and 57 completed, being in both cases still more than 45% targeting unconventional gas. 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 Q4 2018 we completed 6 tight gas wells at these blocks.

Finally, regarding our shale activities, the second pilot well to Vaca Muerta formation at **El Mangrullo** block finished drilling operations in Q4 2018. The pilot well was drilled at a depth of 9.2 thousand feet, and is the first step of a pad that will be completed with 2 horizontal wells, with an extension of 8.2 thousand feet. The pad will study two horizons that have been identified with large potential.

Moreover, on November 29, 2018 the Joint Venture of Pampa and High Luck announced the discovery of oil in Las Breñas formation at El Chirete block, with a depth of 8.9 thousand feet, where 48.5 cubic meter of light oil recovered in 15.5 hours. Testing during the first months of 2019 has delivered excellent results with production levels above 1.2 thousand barrels per day.

Regarding our proven developed and undeveloped reserves, it is worth pointing out that as of December 2018 we reached 130 million barrels of oil equivalent, of which 88% is natural gas, all of them in Argentina. This 4% increase year on year, considering the continuing operations, was mainly driven by the successful development plans at El Mangrullo and Río Neuquén, and to a lesser extent, by the 35-year license extension at El Mangrullo and Sierra Chata. Considering current production levels and concessions' extension in 2018, the reserve-replacement ratio posted 1.32, and average life of 8 years.

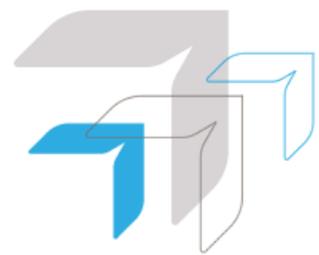
Since we divested most of the assets at Refining and Marketing, we are going to skip the details, and head straight to comment petrochemicals, in which we posted an adjusted EBITDA of 35 million pesos during the fourth quarter of 2018, 177 million higher compared to the same period in 2017, mainly because of FX impact over our dollar-denominated prices, that are highly correlated with international references, and also optimization of fixed costs by shutting down small-scale plants that were not functional with the current petchem business environment. This was offset by lower sales volume, lower prices in US\$ and export duty in force since September of last year.

In operating terms, total sales volume of our petrochemicals segment decreased by 15% in Q4 18, totaling 88 thousand tons, mainly to lower demand of styrene products and realized exports plus the shutting of BOPs plant in Zárate.

Finally, our holding and others segment presented an adjusted EBITDA of 1.5 billion pesos in the fourth quarter of 2018, compared to 647 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.

I'm going to briefly review **TGS**, as they just had their earnings call last week; TGS's EBITDA adjusted by our indirect stake of 25.55% contributed to Pampa 925 million pesos in the quarter from an implicit total of 3.6 billion pesos, significantly higher compared to Q4 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 433% cumulative). Moreover, the margin in liquids processing segment also contributed to the EBITDA's performance in TGS, due to higher dollar prices, partially offset by the drop in references prices denominated in US\$ and lower volumes sold.

For its midstream business, TGS was granted an extension to the North tranche in their Vaca Muerta gas gathering pipeline, getting to Los Toldos field by adding 16 miles. The total investment for the 91-mile pipeline and the conditioning plant is estimated at US\$250 million, with a total transportation capacity of 2.1 billion cubic feet per day, going through several fields in the Vaca Muerta formation to capture the natural gas



production before its entry into the main gas pipelines. Commissioning is estimated to be in stages as from the second quarter of 2019 concluding in the fourth quarter of this year.

In **Transener**, its EBITDA adjusted by our indirect shareholding of 26.3% contributed 350 million pesos in the fourth quarter of 2018, from an implicit total of 1.3 billion pesos, 7% higher than same period in 2017, mainly explained by the semiannual cost variation update in February and November 2018 (retroactive to August 2018), which amounted a cumulative 43%, partially offset by operating costs.

The fourth cost variation update stipulated in the tariff review is pending since February 2019, which we estimate 25.5% and 27% increase for Transener and Transba, respectively. Transener is currently conducting the applicable procedures to regularize this situation, as well as claiming the interests corresponding to the delay in applying the last tariff adjustment.

On November 2018, the Argentine Public Registry of Organizations registered Pampa's capital stock reduction, approving the cancellation of 183 million ordinary shares of Pampa in treasury, repurchased under the buyback programs. There is a remaining of 20 million repurchased shares that the Company will submit for its shareholder's approval for their cancellation in the next Ordinary and Extraordinary General Meeting of Shareholders. As of today, Pampa's outstanding shares amount to 75 million ADRs.

In terms of net income attributable to the owners of the Company, Pampa presented a consolidated gain of 6.3 billion pesos in the fourth quarter of 2018, compared to a profit of 1.5 billion pesos in the same period of 2017, mainly explained by the accrual of 5.3 billion pesos FX gain due to 9% peso appreciation against US dollar in the quarter, currency in which most of the Company's financial liabilities are denominated, but as the quarterly analysis is in nominal pesos, the inflation effect is not reflected.

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 volatility, high yields and narrow window in the international financing market. In line with the Company's policy, during Q4 2018 we continued refinancing or redeeming the short term facilities, but we must highlight that a month ago, Pampa redeemed at maturity and pre-cancelled a total amount of 130 million dollars.

As of December 31, the consolidated gross debt including affiliates at ownership remained at 2.3 billion dollars, of which 99% is denominated or linked with US dollar, bearing an average interest rate of 7%, and 81% is placed at the parent. Even after cancelling 130 million dollars, the principal maturities what are left in 2019 and combined with 2020's belonging to Pampa stand-alone, amounts to 319 million dollars, which compares to a 430 million dollars' cash position at the parent

Moreover, cash after debt repayment amounts to 716 million dollars, which is down from the 838 billion dollars in September 2018, mainly because of the expansion capex disbursements and devaluation of our peso cash position. Back in Q4 2018 closing we were holding 80% of our cash in US dollars. Therefore, net debt remained at 1.4 billion dollars, and net debt to last twelve months EBITDA remained low at 1.3 times. We also show here stand-alone key debt figures for our bondholders.

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