Pampa Energía Q1 2019 Conference Call

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Presenting:
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Gabriel Cohen, CFO
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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 March. Our CEO Mr. Gustavo Mariani and CFO Mr. Gabriel Cohen are joining us for Q&A session.

Let me start by reminding you that our financial statements follow the International Accounting Standards number 29, meaning all figures reported are adjusted by CPI inflation. What does it mean? Basically all figures in the P&L are stated as of March 2019, so Q1 2019 results consider an average inflation of 3.8% in the quarter, while Q1 2018 results have a 58% adjustment. This also happens similarly to the cash flow statement, but there all non-monetary items coming from balance sheet are adjusted according to the date of record, for example, Property, Plant and Equipment, and therefore, affecting D&A. Balance sheet's monetary items, that is, cash, credits and debts are a stock and therefore no need for inflation adjustment, but comparative figures of December 2018 must be restated as of March 2019, adjusting them by 11%.

So, as you can see on slide 4, moving to the quarter's figures in constant pesos as of March 2019, the adjusted EBITDA in the first quarter of 2019 recorded 8 billion pesos, 34% less compared to an EBITDA of 12.2 billion pesos recorded in the same period of 2018, mainly explained by electricity distribution, E&P, and to a lower extent, to petrochemicals and Transener's performance, partially offset by our power generation business and our affiliate TGS's contribution.

Anyway, this adjustment by inflation 101 is very brief – if you have more questions, please know that you can always reach us out anytime. For convenience purposes only, however, today's results that we are going to discuss are translated into US$ from nominal AR$ currency, reported in our earnings release.

So, let me switch to US$. On to slide 5, we wanted to make a quick stop by reviewing the quarter's financial highlights. Though revenues fell year on year by 25%, mainly because of 98% peso average depreciation over our regulated businesses and 50% lower gas prices, offset by the commissioning of Mario Cebreiro wind farm, quarter on quarter revenues improved by 4%, mainly because our electricity regulated businesses got tariff increases on account of cost inflation, being Edenor granted a 32% plus retroactive charges and Transener 25%, in addition to a higher variable remuneration from better energy dispatch and gas pass through at power generation, thanks to the fuel self-procurement we are allowed since November of last year.

EBITDA also rebounded quarter on quarter by 17%, mainly explained by the tariffs that increased at a higher pace than operating costs and peso depreciation, higher contribution from natural gas liquids processing in TGS plus in power generation, a higher variable margin from operation, maintenance and fuel self-procurement. Also it is worth mentioning that since Q1 18, EBITDA margin was falling from 35% to the lowest point in Q4 2018 of 23%, rebounding to 26% in the first quarter of 2019.

In light of the tight context being experienced by E&P, oil and gas share in the EBITDA shrunk to almost one-third of Pampa's consolidated EBITDA, while electricity, led by power generation, takes the other two-thirds. Also, 70% of Pampa's EBITDA is dollar-link, mainly from gas and power, which contributed to deliver a 216 million dollars EBITDA.

Moreover, in the first quarter of this year we increased our capex disbursement 38% compared to the same period of last year, mainly explained by Edenor's maintenance and catch up investment plan and our power generation expansion undergoing in wind projects and closing to CCGT. If we compare to the last quarter, capex dropped 39%, mainly driven by the fact that we are finishing our expansions in the wind farms and we revisited capex plan across all our businesses, including E&P and Edenor.

Now, moving to power generation segment, during the first quarter of 2019 we posted an adjusted EBITDA of 104 million dollars, similar to Q1 2018, mainly given by the net margin over fuel recognition in the Variable Production Cost (aka CVP), in addition to the commissioning of Mario Cebreiro wind farm with a PPA under RenovAr program. These effects were partially offset by lower dispatch rate especially at our thermal power plants and a reduction in legacy remuneration as per Resolution 1, effective from March 2019. Quarter on quarter we generated 20% more, therefore recording higher net variable margin.

Although we recorded an outstanding 95.5% availability at our power units and especially, 94% at our thermal units, generation was 9% lower year on year mainly due to lower dispatch at Güemes and Piquirenda thermal power plants, caused by a higher CVP from the partial recognition of Bolivian imported gas, therefore placing them behind in the dispatch priority in the grid, in addition to lower electricity demand in the system, causing a lesser generation at Loma De La Lata, Piedra Buena and Genelba thermal power plants, plus a lower water level at our dams in Mendoza, mainly affecting Diamante power plant. These variations were partially offset by the commissioning of Mario Cebreiro wind farm, which ranks senior in the dispatch priority because its variable cost is close to zero, and a higher availability at Ingeniero White thermal power plant. Quarter on quarter, power generation increased because electricity demand in the grid recovered 6%, plus also Q4 2018 was the lowest consumption recorded in a quarter since 2014.

The availability rate in the first quarter of 2019 was 95.5% as we mentioned before, with an increased installed capacity, slightly lower than to the 97.3% availability achieved in the same quarter and Q4 of last year, mainly because of strategic commercial outages at certain thermal power plants we chose to do, offset by higher reliability in Ingeniero White.

Moving to news in power generation and a quick update of our expansion projects, on May 10 CAMMESA granted the commercial commissioning of Pampa Energía number 2 and 3 wind farms, each 53 MW of installed capacity and 14 Vestas wind turbines, as you can see on slide 7 and 8. Both wind farms are located nearby Mario Cebreiro wind farm and destined to meet the demand of large electricity consumption users through private PPAs under MAT ER framework. The wind farms are fully sold out at an weighted average price of 69 dollars per megawatt hour, and the PPAs maturities range between one to 10 years, with an average life of 5 – all can be rolled at maturity. The Parque Eólico Pampa Energía or PEPE number 2 and 3 as we call them, demanded a final investment of approximately 130 million dollars, 5% below budget and COD was the same date as we committed it – something that makes us very proud. With this two new additions, Pampa operates 206 MW of wind energy, making a total of 14 power plants with 4 GW of installed capacity across the country, placing us as a leading company in renewables and the largest independent power producer of Argentina.

Regarding the expansions we have in the pipeline, we are currently in the midst of the closing to CCGT of 383 MW at Genelba, as you can see in the picture on slide 9. By the end of April the first fire of the new gas turbine took place and a few days ago, the gas turbine was successfully connected to the grid, therefore after testing it reached 180 MW of power capacity. Adding the 20 MW enhancement to the original gas turbine placed in Genelba, we are expecting to start up operations for 200 MW by the next few days, but will be billing as legacy capacity until the closing to CCGT begins operations. Additionally, we have been advancing with the rest of the infrastructure works, which are ahead the original schedule.

Moving on briefly to the distribution segment which was reviewed by our CFO at Edenor Leandro Montero yesterday in their earnings call, as shown in slide 10 during the first quarter of 2019 the EBITDA decreased by 114 million dollars compared to the same period of 2018, amounting to 25 million dollars in the quarter, mainly because of low demand of electricity due to mild weather, downturn in the economic activity and price-demand elasticity. Moreover, this quarter's EBITDA was negatively affected by the FX variation higher than the Own Distribution Cost update (aka CPD), which lags deval and it is over weighted in the salary index, that also lags CPI and PPI, in addition to higher operating costs and energy losses. This is offset by lower labor costs in dollars and deferred income from gradual tariff increase in 2017. Quarter on quarter, EBITDA at distribution improved mainly explained by an 8% greater electricity demand and lesser fines recorded.

Energy losses reached 17.4% rate in the first quarter 2019, 110 basis higher than the 16.3% for the same period 2018 and 30 basis above Q4 2018, mostly identified in residential end-users, especially low income users that do not have access to gas distribution grid, partially offset by lower volume of energy demand. We are targeting at users that steal electricity from us by performing market discipline actions and installing customized pre-charged meters. Therefore, we are increasing our customer base, but this is being offset by losses on SMEs and large users. Energy cost increased by 19% in AR$ net of inflation, but decreased 40% in dollars year on year, due to peso increases in the seasonal price were outpaced by the peso devaluation.

By the way, electricity cost for residential end-users is still subsidized compared to the full cost of generation, currently one-third is estimated to be subsidized. For the remaining of the year, the Secretariat of Renewable Resources and Electricity Market waived from increases in the seasonal price for residential users, thus increasing the subsidy share to 50%, but did raise it for non-residential users in May and August of this year, which are not subsidized.

Finally, last Friday Edenor was notified that the agreement to transfer Edenor's concession from national to local regulator was approved without any change in Edenor's license agreement. Moreover, it was notified that the Liabilities Regularization Agreement was approved, thus ending crossed claims originated in the 2006 to 2016 transition period. On the one hand, the National Government partially acknowledges Edenor's claim, releasing from liabilities 6.9 billion pesos, which are composed by the energy purchases acknowledged by the Government, a fraction of the loans granted by CAMMESA and the penalties owed to the National Government, all recorded during the transition period. On the other hand, Edenor waives all rights and actions against the National Government, including the lawsuit filed in 2013, plus Edenor will pay end-users for certain penalties corresponding to said period, by executing additional investment on top of the RTI for a total amount of 3 billion pesos; plus other outflows mainly corresponding to income tax, for additional 4.6 billion pesos. We find this milestone very positive for Edenor as it ends a huge burden for its balance sheet and shall boost the equity value for shareholders.

As you can see on slide 11, during the first quarter of 2019 in the oil and gas segment we posted an adjusted EBITDA of 38 million dollars for the continuing operations, 59% lower than in Q1 2018 and 23% lower than last quarter, mainly because it is still reflecting the downward trend in hydrocarbons dollar sale price, especially in gas, the expiration of Plan Gas second generation in July 2018 and the lower trading of third parties' natural gas, partially offset by slightly higher production and sales of crude oil, plus greater intersegment gas sales to power generation. Please remember that Q1 18's EBITDA includes 19 million dollars from Plan Gas second generation recorded from our blocks that used to belong to Petrolera Pampa, a subsidiary that was merged into Pampa in 2017. To be conservative and until obtaining the gas authority's formal approval, this 19 million was reversed on Q2 18.

Despite prices are falling, our overall production in Q1 2019 increased 2% year on year and 10% quarter on quarter, reaching to 46.8 thousand barrels of oil equivalent per day, of which 89% is composed by natural gas.

On the oil side, the 15% increase in production year on year from 4.7 to 5.4 thousand barrels per day mainly responds to the beginning of crude oil production at **Chirete**, a block in testing phase after an oil discovery reported by the end of November last year, with very promising results. During the testing period, the block at an 100% stake has produced 1.9 thousand barrels per day, which represent 30% of the total Noroeste

Basin's oil production, and is considered the most important discovery in this basin since 1984. Pampa holds 50% working interest in this block. Additionally, the increased drilling activity at **El Tordillo** block also contributed to higher oil production. During Q1 2019 the crude oil sales price decreased year on year by 4 dollars, reaching 54.4 dollars per barrel, because the domestic price follows the international price of barrel – the Brent - and Escalante heavy oil narrows Medanito prices, being 57% of our oil production as Escalante.

Please turn to slide 12, where we want to explain in deeper detail the situation in gas. Regarding the gas production, the quarter reached an average of 249 million cubic feet per day, similar to Q1 18 but 12% higher quarter on quarter, mainly explained by the production increase at **El Mangrullo** by the installation of an Early Production Facility and an agreement with YPF to use the neighboring Rincón del Mangrullo's processing plant, so we are able to evacuate more gas. By March 2019, the gas production level of **El Mangrullo** reached 148 million cubic feet per day, 53% higher than in March last year. **Río Neuquén** also presented a 9% increase in gas production year on year due to the increase in capacity by second half of 2018. These positive variations were partially offset by an excess of supply of gas driven by the disruption of shale developments, specifically backed up by the Unconventional Gas Plan Resolution 46, and kind of affected by the economic downturn. These effects negatively impacted on **Rincón del Mangrullo** block with a lower drilling rate and natural decline, and a minor decrease at **Parva Negra Este** and **Aguaragüe** blocks.

During first quarter 2019, our accrued weighted average sale price for gas was 3.1 dollars per million BTU, 50% lower year on year and 9% compared to last quarter, mainly due to a 35% decline in end-users' sale price compared to first quarter 2018. The lower sale price to end-users was 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, which reflected the demand seasonality and excess of supply, which also impacted negatively the commercialization in industrial segment. Moreover, Q1 2018 price accrual of 6.3 dollar per million BTU included Plan Gas second generation compensation, which expired by the end of June 2018, and represented 1.4 dollar per million BTU, but 80 cents of dollar were reverted in the second quarter of 2018 as explained before. This drop in prices were partially offset by a slightly higher accrual of retail price from gas distCos.

The fuel self-procurement for our power generation helped to recover gas production levels, we are destining almost all our production there. Though it does not improve pricing, we are currently selling at above spot price but capped at CAMMESA reference price, plus it helps to have a certain offtake especially during weak demand periods and to monetize some synergies between power and gas segments. As you can see on the slide 12, the average gas prices that we recorded to demand are plunging, specifically since August 2018, when the Energy Ministry back then decided to cut the reference price for gas-fired power generation by one dollar per MBTU. Afterwards, the combination of off-peak season, shale gas disruption, weak domestic demand, bottlenecks at evacuation infrastructure, non-existent ways of exporting or storing gas, CAMMESA as market maker and intervening the spot, all of these factors resulted in gas prices falling to the lowest point in years and hardly covering the marginal breakeven cost. We do not have certainty of gas prices during winter season with exception of retail segment, which holds take or pay contract. As we approach to winter season, the excess of supply rapidly shrinks and as evidence showed in the past, the domestic production is not enough to cover the domestic gas demand, needing to cover the deficit with expensive gas imports from LNG and Bolivia.

Moving on to the news update in the segment, the gas regulator granted new final tariffs for distCos, effective from April to September 2019, in which considers a price for natural gas as a raw material of 4.69 dollars per million MBTU – the average price from the take or pay tenders. However, discounts in the months of April and May as a subsidy, in addition to partial financing possibility of the winter's bills to summer season that would be borne by the Federal Government. Keep in mind that Pampa was awarded during the last tender for distCos on a firm basis for 12 months as from April 2019 at a price above the tender average of 4.62 dollar per million BTU, with 200 thousand cubic meters in off-peak season that triples by winter.

Moreover, last month Pampa was credited the Natural Gas Program Bond for a face value of 89 million dollars, maturing on June 28 of 2021, corresponding to former Petrolera Pampa, and as of today, 4 installments, equivalent to 12 million dollars have already been collected. We've been approved to credit further 54 million dollars, but haven't collected anything so we are taking all the necessary actions before the corresponding authorities.

Before I move on from oil and gas, I wanted to give you a quick update of our operations. During the first quarter of 2019, 6 wells were drilled and 10 wells were completed. Our focus is the development of blocks with tight gas reservoirs and the exploration of shale gas potential in Vaca Muerta reservoir. During Q1 2019 we drilled 1 shale gas well and completed 4 tight gas wells.

Finally, regarding our shale activities, during Q1 2019, the side tracks for two Vaca Muerta wells at **El Mangrullo** block were built, each with a horizontal extension of 8.2 thousand feet. These are the first horizontal wells to Vaca Muerta we operate and their completion is expected to be in the following months, in which approximately 40 hydraulic fractures are to be performed in each objective.

Moreover, since the oil discovery at **Chirete** block turned out to be commercially exploitable, by the end of last month, applications were filed for the granting of an exploitation license for a lot known as **Los Blancos** and a three-year exploration period extension for the remaining area of the block.

Since we divested all the assets at Refining and Marketing, we are going to skip the details, and head straight to briefly comment petrochemicals, in which we posted an adjusted negative EBITDA of 0.2 million dollars during the first quarter of 2019, lower year on year and quarter on quarter, mainly because of the downward trend in international prices in US$, weaker domestic demand, export duties and higher costs of imported virgin naphtha. These effects were partially offset by incremental export sales, lower costs of gas purchases and optimization of fixed costs by shutting down small-scale plants that were not functional with the current petchem business environment.

In operating terms, total sales volume of our petrochemicals segment decreased by 5% year on year in Q1 19, totaling 83 thousand tons, mainly due to lower sales of styrene and synthetic rubber, plus the closing of BOPs plant in Zárate and ethylene plant in San Lorenzo, partially offset by higher export of reforming products.

Finally, our holding and others segment presented an adjusted EBITDA of 49 million dollars in the first quarter of 2019, similar to the same period of 2018 but over performing to Q4 2018 by 28%. This is mainly due to the higher income from fees collected at holding, partially offset by lower EBITDA in US$ adjusted by our ownership from our affiliates Transener, TGS and Refinor mainly because of the peso depreciation, plus reallocation of expenditures to other businesses and the inclusion of Dock Sud dispatch facility's expenses and higher cost of fees to Pampa's Board.

I'm going to only briefly review **TGS**, as they just had their earnings call yesterday; TGS's EBITDA adjusted by our indirect stake of 25.55% contributed to Pampa 29 million dollars in the quarter from an implicit total of 113 million dollars, 18% lower than Q1 18, mainly due to FX variation higher than lagged PPI that covers cost variation for gas transportation business, the drop in references prices denominated in US$ for NGLs and higher export duties, partially offset by the full implementation of the tariff increase plus cost variation, higher natural gas processing volumes and lower cost of gas per MBTU.

For its regulated business, TGS was granted the fourth semiannual cost variation update of 26% as from April 1, 2019, based on PPI variation between August 2018 and February 2019. Also, for its midstream business, by the end of last month TGS completed the first stage of 41-mile south tranche gathering pipeline plus partial commissioning of the gas conditioning plant at Tratayén, starting up as from this month with firm contracts for 28 million cubic feet per day plus interruptible gas transportation. In line with the strategy in Vaca Muerta, TGS submitted a project for the construction of a gas pipeline of over 620 miles to connect the Neuquina

Basin with Greater Buenos Aires and the eastern area. As of today, there's no news about that. Moreover, on April 23 TGS paid a total of 7.2 billion pesos of cash dividend.

As per **Transener**, its EBITDA adjusted by our indirect shareholding of 26.3% contributed 11 million dollars in the first quarter of 2019, from an implicit total of 42 million dollars, 30% lower than same period in 2018, mainly because the lagged cost variation update was lower than FX variation, partially offset by lower operating costs, mainly due to higher awards for quality service and lower labor costs.

The fourth cost variation update stipulated in the tariff review was granted on March 22 and effective as from February 2019, granting 25% and 27% increase for Transener and Transba, respectively. Moreover, on April 25 Transener's shareholder's approved a 3.3 billion pesos cash dividend. Date of payment is pending of confirmation.

On March 27, the Board of Pampa approved a new share buyback program for 100 million dollars. We see a huge upside potential in the value of our assets that will be materialized as soon as market turmoil goes away. In the meantime, we consider repurchasing our own shares one of the best investments and accretive actions towards shareholders that we are undertaking. As of today, under this new program Pampa acquired 2.2 million ADRs, and the outstanding shares amount to 73 million ADRs.

Now, let me switch back to pesos adjusted by inflation. In terms of net income attributable to the owners of the Company, Pampa reported a consolidated gain of 6.4 billion constant currency pesos in the first quarter of 2019, 13% higher than the same period of 2018, mainly explained by a higher gain of 6 billion pesos from the lower deferred tax liabilities as we joined the optional tax revaluation last March 27, a higher profit of 4 billion pesos due to our passive net monetary position, partially offset by the underperformance of our EBITDA by 4 billion pesos, higher losses of 3 billion due to 15% of AR$ depreciation against US$ in Q1 19, currency in which most of the Company's financial liabilities are denominated and higher charge of income tax for almost 1 billion pesos.

Finally, moving to slide 16, 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 industry and in Argentina. We have always been very proactive towards the cash and liability management, especially after witnessing volatility, high yields and narrow window in the international financing market. We continued redeeming the short term facilities, highlighting that as of today Pampa redeemed at maturity and pre-cancelled almost 160 million dollars.

As of March 31, the consolidated gross debt including affiliates at ownership remained at 2.1 billion dollars, 0.2 billion below December of last year, of which 99% is denominated or linked with US dollar, bearing an average interest rate of 7.2% and 80% is placed at the parent. Even after cancelling almost 160 million dollars, the principal maturities belonging to Pampa stand-alone that are left in 2019 and combined with 2020's, amounts to 278 million dollars, which is exceeded by the pro-forma 382 million dollars' cash position at the parent, after debt redemptions and share repurchases. Currently we hold a higher cash position.

Moreover, consolidated cash after debt repayment amounts to 605 million dollars, which is down from the 716 million dollars in December 2018, mainly because of the debt redemptions and share repurchases, partially offset by operating cash flow. Back in Q1 2019 closing we were holding 86% of our cash in US dollars. Therefore, net debt slightly increased to 1.5 billion dollars, and net debt to last twelve months EBITDA remained low at 1.5 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.