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*14th Annual Global
CEO Survey*

*Marcos Marcelo Mindlin,
Chairman,
Pampa Energía S.A.*

Interview Transcripts

Interview with Marcos Marcelo Mindlin

Chairman, Pampa Energía S.A.



PwC: What indicators are you watching to understand how the global economy will develop in 2011?

MM: On an international level, the two main indicators we follow are trends in interest rates and economic growth in the principal developing countries that consume Argentine commodities – countries like China, India, and Brazil. Right now, both indicators reflect the economic downturn that began in 2008. One of the legacies of that downturn, we believe, will be a long period of low interest rates, worldwide. A world with low interest rates creates an appetite for investing in emerging markets. That is clearly to our benefit.

PwC: What are your projections beyond 2011 and what related risks do you see?

MM: My basic premise is that the world is emerging from the downturn. However, this does not mean that all problems have been resolved and that the global economy will soon start growing again vigorously. The world may have weathered this crisis but many developed countries have been left with significant debt burdens. In these countries, the combination of considerable public debt and weak national economies leads me to expect very low interest rates and high levels of liquidity will continue across the US and Europe. How can countries that have high levels of public debt and tax deficits raise interest rates? That's next to impossible. The American private sector fell into debt as a result of subprime mortgages, which were made widely available to the public. And although it's not the end of the world, many American families still carry large debt loads. Under these conditions, the combination of low interest rates and high liquidity seems to be good corrective measure.

PwC: What is the situation now with respect to Latin American countries?

MM: A world of low interest rates and high liquidity is ideal for countries in Latin America because these conditions help us access the capital markets. Today, the prices of Argentine commodities are competitive and on an upward trend. Unless there is a significant slowdown in the Chinese or Indian economies, the demand for Argentine commodities will continue to grow. For us, cheap access to credit is highly beneficial. And China seems to keep growing and able to absorb all the raw materials we produce.

PwC: Are foreign investors interested in Argentina?

MM: Definitely. Investors are especially interested in industry sectors that can thrive in the current economic climate. There are a lot of investors looking at Argentine real estate, for example.

PwC: To what extent did the economic downturn affect your industry?

MM: The downturn has not had a great impact on our industry. Generally speaking, the energy sector is not particularly sensitive to economic recessions. Only during a deep recession does demand for electricity fall. And even under extreme conditions, the reduction in demand is minimal. Consequently, the downturn has not had an impact on our sales volume.

PwC: Has the global economic contraction caused you to modify your strategic thinking?

MM: Despite the panic that occurred in the wake of the downturn, we found ourselves to be very well positioned. So, we took the opportunity to purchase, at a discount, a substantial percent of our subsidiaries' debt – around US\$ 370

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million in all. That represents about 30-40 percent of the total debt of our various subsidiaries: Electricidad Argentina, Edenor, Transener, Central Térmica Güemes, and Central Térmica Loma de la Lata. Our debt purchase was possible because we had plenty of liquidity when the crisis erupted – we were prepared. The key to our business strategy is to always have liquidity to take advantage of opportunities as they arise. A crisis like the current one does not occur frequently. But we were able to move quickly to take advantage of the situation because we had high liquidity levels and a financially solid business.

PwC: In your view, where do the most significant strategic opportunities for your company lie?

MM: Our main strategic opportunities fall into two categories. In the electricity generation category, the Argentine government has implemented a programme called, Energía Plus, whereby energy companies that invest in new power generation infrastructure are allowed to sell electricity directly to private sector companies at market prices. Pampa Energía represents 10 percent of Argentina's installed electrical capacity; however, we generate 45 percent of the electricity sold under the Energía Plus programme. We achieved that marketshare by adding 178 MW of capacity at our Loma de la Lata plant. This is a very important strategic opportunity for us. Our other opportunity lies in natural gas, a business that Pampa Energía has only recently entered. We were prompted to do so because our Loma de la Lata plant annually consumes approximately 2.5 percent of all the natural gas produced in Argentina. So, our initial idea was to have an equity interest in the natural gas supplies we require for our own operations. But, we also expect to eventually become a major player in the country's Gas Plus programme, which is modelled along the lines of Energía Plus.

PwC: So, these “Plus” programmes operate without any pricing regulation?

MM: Yes. The aim is to establish a market in which private power companies can trade freely according to fluctuating supply and demand. To give you an idea, under the Energía Plus rate, our electricity pricing is around US\$ 65 per MW/hour versus the regulated price of US\$ 30 per MW/hour. Similarly, prices under the Gas Plus contracts are typically priced between US\$ 4 -5 per million BTU (British thermal units), while regulated gas is priced between US\$ 2 - 2.5 per million BTU. With these programmes, the Government is trying to encourage investment in electricity generation plants and gas fields.

PwC: How does innovation factor into your long-term plans?

MM: Innovation is very important to us and we regularly invest in state-of-the-art technology. For example, two years ago, under the Energía Plus programme, we installed an aero-derivative gas turbine in our plant in the Province of Salta. There are only fifteen turbines of this type in the world; it incorporates the very latest advances in turbine technology. We also used the most efficient technology available when expanding our Loma de la Lata plant. That plant now generates 178 MW more electricity while consuming the same amount of fuel as it did previously. We're registering this project with the United Nations in order to obtain carbon credits under the Kyoto Protocol agreements. Our Loma de la Lata upgrade was the largest Argentine project and one of the three largest Latin American projects to qualify for Kyoto carbon credits. We estimate that once the upgrade is completed, we will be able to reduce carbon emissions from our Loma de la Lata plant by approximately 600,000 tons per year – which equates to about US\$ 10 million in annual carbon credits.

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PwC: What is your strategy with regards to sourcing supplies for your operations?

MM: Our suppliers are located in many different countries. We don't choose them based on their location. Rather, we choose them based on our technology needs. The aero-derivative gas turbine I just mentioned was purchased from General Electric. Our Loma de la Lata plant has a turbine manufactured by Siemens. In general, the large transformers in our plants are supplied by Edenor. We bid out our equipment needs and award projects to suppliers that offer us the best technology at the most reasonable price.

PwC: Do you keep an eye on energy markets in other countries?

MM: Yes, we analyse them to learn about other regulatory frameworks and compare them with Argentine regulations. However, we are not planning any expansion outside Argentina.

PwC: In your view, have the actions taken by governments in response to the financial contraction been useful?

MM: The most significant action that governments took to stem the crisis was to recapitalise banks and thereby rebuild confidence. Of course, the downside to that was a rise in public debt. Now, I am quite sceptical regarding the capacity of governments to prevent another crisis of this magnitude in the future. I believe a crisis like the one we just experienced is likely to occur every 30 or 40 years, whenever levels of public indebtedness reach a breaking point. With regards to the present downturn, the economic situation in Argentina is different than

in the US or Europe. Argentina had already gone through its own financial crisis in 2001 and so economic inefficiencies had already been squeezed out of its system. Also, Argentina has never had a very large financial sector and its government debt-to-GDP ratio is small compared with the world's major economies. Indebtedness across the Argentine private sector is also very low. As a result, our country did not feel the shock waves generated by the global economic contraction.

PwC: Is the way your company raises capital changing?

MM: No. We have the same strategy as always with regard to accessing the capital markets and obtaining financing. We have built and fostered good relationships with local and international capital markets. Pampa Energía's corporate governance is the equal of the world's best-run companies and that gives our lenders confidence. Similarly, we have a conservative indebtedness policy. That provides our bondholders with peace of mind. In October, with the help of international banks and investors, we floated a new bond issue bearing a 12-year maturity. And we did fine. The bond placement raised the equivalent of US\$ 230 million dollars. We used those funds to improve our liquidity levels, which had dropped following the purchase of our debt. The overseas equity market is one source of financing that we have not yet tapped, but we would eventually like to. It's been more than a year since we took steps to comply with the accounting and governance standards for listing on the New York Stock Exchange. While we haven't had a share offering yet on that exchange, we'll be ready when the time is right. When we see an appetite for Argentine assets, we will seize the opportunity.

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PwC: Is your conservative financial strategy shared by other Argentine companies?

MM: It is, although I don't know if there is another company that purchased as large amount of its own debt as Pampa Energía did. Having gone through its own crisis a decade ago, the Argentine business community is generally conservative when it comes to debt.

PwC: Is there an appetite today for Argentine assets?

MM: In general, there has been a greater appetite for Brazilian, Peruvian and Colombian assets than for Argentine assets. However, we've seen increasing interest in Argentina in the past few months. If we compare the price of Argentine assets with Brazilian assets, ours are much less expensive. When we talk to investors who are familiar with both countries, they say that most Brazilian assets are already valued at market prices – so there are few attractive deals left there. Whereas Argentine assets are still relatively inexpensive.

PwC: In your view, can the private sector contribute to the larger society?

MM: Yes. Pampa Energía, for example, is involved in a range of projects that benefit local communities. Let me mention one: The “Power Bar” project, which provides support for school workshops that teach children how to grow high-protein food, most of which is contributed to charitable organisations. The programme not only teaches children about agriculture and nutrition, but it also instils values related to teamwork and entrepreneurial spirit in that 30 percent of the food grown is sold for profit. Over 130 schools in the provinces of Buenos Aires, Salta, Mendoza, Neuquén, Bahía Blanca and

Santa Fe take part in this project; and more than 4,500 children have participated in it. We've also undertaken another initiative in cooperation with the technology institution, ITBA – one the finest universities in Argentina. With support from Pampa Energía, the university re-started an electrical engineering programme that had been previously dropped from the curriculum. Not only do we fund the programme, but we also offer full programme scholarships to ITBA students whose parents work for Pampa Energía. This is our way of helping to train more local electrical engineers, which Argentina badly needs. We take great pleasure and pride in sponsoring this programme. However, notwithstanding our many ongoing community projects, we believe that our major contribution to society is in providing people with reliable sources of energy while running our business in a sustainable and environmentally conscious way.

PwC: How competitive are Argentine companies?

MM: It's difficult for me to say. I can tell you that Pampa Energía is one of the most efficient companies in the Latin American energy sector. Our pricing is about 80 percent less than in neighbouring countries like Brazil, Uruguay and Chile. And that's after having met a 50 percent growth in demand over the last eight years

PwC: What action can the Argentine government take to improve national competitiveness?

MM: Considering the problems of countries like Greece, Portugal, Spain, and Ireland – where national indebtedness levels might be 100 percent of their GDP – the fact that the Argentine government has a debt reduction policy is very positive.

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Argentina's public debt is about 30 percent of the country's GDP. Because it maintains relatively low levels of debt, the government isn't crowding the Argentine private sector out of the debt markets.

PwC: What sort of regulatory framework does your company operate within?

MM: In Argentina, the private sector has a major role in the generation, transport and distribution of electricity. Five years ago, Pampa Energía entered into an agreement with the government that will eventually result in the normalisation of our rates relative to market pricing. That's the path we're on and it goes without saying that, as a private sector company, I would like to move down that path faster. But, we are making progress.

PwC: What sorts of non-financial value is important to Pampa Energía?

MM: We value the fact that the world outside Argentina now recognises Pampa Energía as a credible player. This recognition is reflected in our successful bond flotation and in having met the listing requirements for the New York Stock Exchange. We also place great value on the fact that the people who work for Pampa Energía find satisfaction in their jobs. We were recently ranked 17th on a widely-respected survey of the best places to work in Argentina. We make every effort to link these two values: to be a credible player in the global business community; and to create a work environment where our people can feel fulfilled.

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