Fitch Assigns Pampa Energia S.A.'s Proposed Issuance 'B+(EXP)' Expected Rating

6 de enero de 2017

Fitch Ratings-New York-06 January 2017: Fitch Ratings has assigned Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of 'B' and 'BB-', respectively, to Pampa Energia S.A. (Pampa). The Rating Outlook is Stable. Fitch has simultaneously assigned an expected rating of 'B+(EXP)/RR3' to Pampa's proposed senior unsecured notes. The company expects to use the proceeds from the issuance to refinance existing debt at its subsidiaries, funding capital expenditures and for general corporate purposes. KEY RATING DRIVERS The ratings consider Pampa's status as Argentina's largest integrated energy company, with significant markets shares across all its business lines. In particular, the ratings reflect the company's substantial operations in exploration & production (E&P), as well as the favorable domestic price environment for its natural gas business in Argentina. Additionally, the company's electricity generation segment is expected to provide cashflow stability and gradual growth as new plants qualifying for more profitable regulatory programs are constructed. In addition to broad macroeconomic constraints captured by Argentina's Long-Term IDR of 'B', a potential pressure point for the company is its participation in the historically unprofitable distribution company, Edenor. Pampa's foreign currency rating is constrained by the 'B' country ceiling of the Republic of Argentina, which limits the foreign currency rating of most Argentine corporates. Country ceilings are designed to reflect the risks associated with sovereigns placing restrictions upon private sector corporates that may prevent them from converting local currency to any foreign currency under a stress scenario and/or may not allow the transfer of foreign currency abroad to service foreign currency debt obligations. FAVORABLE NATURAL GAS PRICES In an attempt to foster energy independence, Argentina has created various incentive programs across the energy sector including subsidies that guarantee a realized price of USD7.5 per million BTU (mmBTU) for qualifying gas production, known as Plan Gas and Plan Gas II. Fitch estimates approximately 60% of the company's natural gas production will qualify for these price incentives in 2017. Plan Gas is set to expire at the end of 2017, and Plan Gas II is set to expire in the middle of 2018, although there is some political support for extending these programs for another year or two. Even if the programs are not renews, Fitch expects Pampa will be able to achieve a realized price of around USD6/mmBTU considering the substitution costs implied by LNG imports and Fuel Oil #6. Pampa's joint venture with YPF S.A. for the exploitation of the Rincon del Mangrullo and its purchase of Petrobras Argentina have had a transformative effect on the company, growing its production volumes from around 3,000 barrels of oil equivalent per day (boe/d) in 2013 to an expected 75,000 to 80,000 boe/d over the next three years, making it the fourth largest oil and gas producer in the country. Under Fitch's base case assumptions, the consolidated exploration and production (E&P) operations of Pampa and Petrobras Argentina should generate around 80% of consolidated EBITDA in 2017, excluding Pampa's distribution business. INVESTMENTS IN GENERATION IMPROVE PROFITABILITY The company's 3,433MW of installed capacity represent 10% of the country's total capacity. However, most of Pampa's generation assets operate under a regulatory system applied to older generation units, remunerated at lower prices to reflect their inefficiency. As a result, a significant portion of Pampa's growth capex is expected to go toward the construction of new plants that would qualify for new regulatory schemes that offer higher capacity prices and are paid in USD. In October 2016, the company won bids for four generation plants (three thermal, one windpower) totalling approximately 400MW of capacity, with expected commercial operation dates (CODs) in the second half of 2017. Fitch expects this strategy of seeking higher generation margins through the construction of new plants to continue through the medium term. POTENTIAL REVERSAL OF FORTUNES IN ELECTRICITY DISTRIBUTION

For the last decade, Argentina's electricity prices have been artificially suppressed, with average monthly electricity bills of around USD 3. As a result, distribution companies, such as Pampa's Edenor, have operated at significant losses, requiring various government subsidies and credit programs to stay afloat. Nevertheless, with the aggressive efforts at liberalizing Argentina's energy sector under the Mauricio Macri administration, there are indications that this sector might return to profitability. In February, a tariff increase reflecting adjustments to the fuel cost component was implemented by the Macri administration, effectively raising the average monthly residential electricity bill to USD16. This increase was provisional; an official tariff review was discussed in December 2016, which resulted in increases of 22%-44%. In addition to the upward revision to the distribution component of the tariff, even the revised fuel cost component (approximately ARS300/MWh) remains significantly below breakeven costs of approximately ARS650/MWh as of year-end 2015. While the Macri Administration has already run into some legal and political obstructions that resulted in a tempering of the liberalization process, this is a clear priority. Less clear is the speed at which the system will be effectively transformed, much less how long such a transformation would last. With low expectations informed by the last decade's electricity regulation, the upside potential could represent yet another transformational change for Pampa. KEY ASSUMPTIONS --Natural gas production of between 45,000 and 55,000 boe/d over the next three years; total hydrocarbon production of between 70,000 and 80,000 boe/d during the same period. --Average realized natural gas price of USD 6/mmBTU; crude prices reaching international parity over the next 12 to 18 months. --Average of USD150 million invested annually in additional generation capacity --Gradual improvement in cashflow for Edenor over the next three years. RATING SENSITIVITIES Although the Argentine regulatory environment for oil and gas and utilities appears to be undergoing positive changes, detrimental government intervention remains the greatest risk to Pampa's ratings. In that vein, failure to implement effective tariff adjustments through the medium term could potentially lead to a downgrade. While all recent trends point to a supportive view towards the E&P sector (and particularly natural gas), any reversal in that environment would have a material impact on Pampa's cashflow. Finally, failure to balance expansion goals with the maintenance of a solid capital structure would be viewed negatively. Gross leverage of above 3.0x on a sustained basis could lead to a negative rating action. Barring an upgrade to the sovereign, an upgrade for Pampa is unlikely in the near term. However, sustained improvement in the company's distribution segment would be viewed positively, particularly if it resulted in substantial deleveraging. LIQUIDITY Fitch expects year-end debt of around USD1.6 billion, with approximately USD540 million of maturities expected in 2017, largely associated with loans incurred to execute the purchase of Petrobras Argentina. Proceeds from the company's proposed issuance will be primarily used to refinance these maturities and rebalance its amortization schedule. If the company successfully refinances its short-term debt, it will have more than 70% of its debt maturing beyond five years. Other significant debt obligations other than the acquisition-related debt include a USD500 million Petrobras Argentina bond (to be absorbed by Pampa in 1Q17), a USD176 million Edenor bond (structurally subordinate to Pampa-level issuances). FULL LIST OF RATING ACTIONS Fitch has assigned the following ratings to Pampa: --Long-Term Foreign Currency Issuer Default Rating 'B'; --Long-Term Local Currency IDR 'BB-'; --Proposed senior unsecured notes 'B+(EXP)/RR3'. The Rating Outlook is Stable. Contact: Primary Analyst John Wiske Analyst +1-212-908-9195 Fitch Ratings, Inc. 33 Whitehall St New York, NY 10004 Secondary Analyst Cinthya Ortega Director +1-312-606-2373 Committee Chairperson Joseph N. Bormann Managing Director +1-312-368-3349 Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com. Date of Relevant Rating Committee: Dec. 20, 2016 Additional information is available on www.fitchratings.com. Applicable Criteria Country-Specific Treatment of Recovery Ratings (pub. 18 Oct 2016) Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016) Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers (pub. 21 Nov 2016) Additional Disclosures Dodd-Frank Rating Information Disclosure Form Solicitation Status Endorsement Policy ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE. Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch’s ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy,

sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001 ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.