

**Rating Action: Moody's assigns B2 rating to Pampa Energía's proposed notes; stable outlook**

---

01 Jul 2019

New York, July 01, 2019 -- Moody's Investors Service ("Moody's") has assigned a B2 rating to Pampa Energía S.A.'s ("Pampa") proposed senior unsecured notes. The outlook is stable.

Net proceeds from the proposed issuance will be used for liability management, capital spending, working capital and/or make capital contributions to certain subsidiaries or affiliates.

The rating of the proposed notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and assume that these agreements are legally valid, binding and enforceable.

Rating assigned:

Issuer: Pampa Energía S.A.

- Senior unsecured notes: B2

**RATINGS RATIONALE**

Pampa's B2 ratings are supported by the company's diversified portfolio of operations, with upside potential in the power industry in Argentina, a benign pricing framework for natural gas and power sectors in Argentina and good credit metrics for its rating category pro-forma for the proposed notes. The ratings are mainly constrained by Pampa's exposure to Argentina's volatile and highly-regulated environment in the power and gas industries. We expect Pampa's capital spending on natural gas projects and power capacity expansions to add significant growth to operations in 2019-20. Nevertheless, this could limit free cash flow growth in the period. Also, these factors are mitigated by the company's strategy to focus on power generation projects with positive pricing outlooks, where the company is an integrated electricity producer, as it procures natural gas from its own upstream operations. At the same time, the company has moderate exposure to foreign exchange risk.

Pampa plans to spend \$700 million on its investment plans in 2019, including expanding its power generation capacity by 13% or 504 megawatts (MW) to 4,375 MW by 2020, mainly through 383 MW additional thermal capacity at Genelba in 2019-20 worth \$350 million and 106 MW in two wind farms worth \$137 million in 2019-20 (Pepe II inaugurated in March 2019). The company's 3,871 MW power generation capacity as of March 2019 (3,977 MW today) represented about 11% of Argentina's total. Around 75% natural gas from Pampa's upstream business is used to procure its own thermal power plants. Furthermore, the recent joint acquisition of Pampa and YPF S.A. of the Ensenada de Barragán Thermal Power Plant (CTEB) will further integrate Pampa's gas and electricity segments. During the next 30 months CTEB will be converted into a combined cycle with 847 MW capacity, up from 567 MW today, with higher efficiency, as CTEB will generate 50% more electricity with the same fuel consumption (natural gas).

Around 35% of Pampa's investments will support Exploration and Production operations. As of the first-quarter ended in March 2019, natural gas represented 89% of the company's oil and gas production at 7.0 million cubic meters per day (MMm3/d), while oil's was at 5.4 thousand barrels per day (Mbb/d). Its main natural gas projects are El Mangrullo and Sierra Chata, operated by Pampa, and Rio Neuquén and Rincon Mangrullo, operated by YPF S.A., which together comprise 200,000 in net acreage in the Neuquina basin for Pampa. As of December 2018, the company had proved oil and gas reserves of 130 million barrels of oil equivalent (MMboe), equivalent to a reserve life of 7.9 years with a reserve replacement ratio of 131%.

Pampa's liquidity profile is good and will improve pro forma the new notes issuance, with no significant maturities until 2023. As of March 2019, Pampa's cash balance of \$546 million was above \$366 million in debt coming due in 2019-20 (\$50 million in debt already redeemed since), mainly composed of bank debt. Around 89% of the company's costs and 75% of capital spending are denominated or linked to the US dollar and, pro forma for the proposed notes issuance, around 94% of the company's debt will be denominated in US dollars. However, close to 90% of Pampa's revenues are generated or linked to the US dollar, along with almost all of

its cash holdings.

Since December 2017 Pampa has reduced its total reported debt by \$1.3 billion, to \$2.0 billion as of March 31, 2019, aided by its cash generation from operations but also by over \$500 million in divestment of non-core assets. The company's debt burden will not be materially increased pro forma the notes' issuance and will lower as the company pays down debt maturities in the next 12-18 months. Accordingly, we estimate adjusted debt to EBITDA ratio will remain around 2.0x in fiscal year ending December 2019, up from 1.8x as of March 2019. Similarly, retained cash flow (cash from operations before working capital requirements but after dividends) to debt ratio was at 21% as of March 2019, and we expect it will remain around this levels in 2019-20. Moody's expects the company's adjusted EBITDA to interest expenses will remain above 3.0 times in 2019-20.

The stable outlook for Pampa's ratings reflects our expectation that the company will maintain stable cash generation based on solid electricity tariffs and adequate natural gas prices. We believe that Pampa's credit metrics relative to its debt burden and interest coverage will remain in line with its rating category within the next 12 to 18 months.

Pampa's ratings could be upgraded (1) if retained cash flow to total debt ratio is higher than 50%; (2) if EBITDA to interest expense ratio is above 5.0x on a sustained basis. If there is an upgrade on the government of Argentina's B2 rating this would not necessarily translate into an immediate upgrade of Pampa's ratings.

The ratings could be downgraded (1) if Pampa materially increases its leverage, with retained cash flow to total debt lower than 10%; (2) if its interest coverage as measured by EBITDA to interest expense ratio declines below 2.0x; (3) if there is a deterioration in the company's liquidity profile; (4) if the government of Argentina's B2 rating is downgraded.

Pampa is an energy company in Argentina, engaged in generation, distribution and transmission of electric power, as well as in oil and gas production, and petrochemicals and hydrocarbon commercialization and transportation. In the generation segment, the company has an installed capacity of 3,871 MW as of March 2019, and additional 504 MW under construction, which accounts for about 10% of Argentina's installed capacity. In the distribution segment, Pampa has a controlling interest in Edenor, the largest electricity distributor in Argentina, which has around three million customers and a concession area covering the northern and northwest part of Buenos Aires. In the O&G segment, Pampa is one of the leading oil and natural gas producers in Argentina, with operations in 11 production areas and seven exploratory areas. Its main natural gas production blocks are located in the provinces of Neuquen and Rio Negro. In the petrochemicals segment, Pampa owns three high-complexity plants producing a wide variety of petrochemical products, including styrenics and synthetic rubber. Finally, the company has a small participation through joint ventures in the electricity and gas transportation and distribution businesses.

The principal methodology used in this rating was Independent Exploration and Production Industry published in May 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

Martina Gallardo Barreyro  
Asst Vice President - Analyst  
Corporate Finance Group  
Moody's Latin America ACR  
Ing. Butty 240  
16th Floor  
Buenos Aires City C1001AFB  
Argentina  
JOURNALISTS: 1 800 666 3506  
Client Service: 1 212 553 1653

Marianna Waltz, CFA  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

**MOODY'S**  
INVESTORS SERVICE

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY**

**PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.