

RISK FACTORS

Risks Related to Argentina

Overview

We are a limited liability corporation (*sociedad anónima*) incorporated under the laws of the Republic of Argentina and all of our revenues are earned in Argentina and all of our operations, facilities, and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic, regulatory, and political and financial conditions prevailing in Argentina, including growth, inflation rates, currency exchange rates, interest rates and other local, regional and international events and conditions that may affect Argentina in any manner. For example, slower economic growth or economic recession could lead to a decreased demand for electricity in our concession area or a decline in the purchasing power of our customers, which, in turn, could lead to a decrease in collection rates from our customers or increased energy losses due to illegal use of our service. Actions of the Argentine government concerning the economy, including decisions with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had and could continue to have a material adverse effect on private sector entities, including us. For example, during the Argentine economic crisis of 2001, the Argentine government froze electricity distribution margins and caused the pesification of our tariffs, which had a materially adverse effect on our business and financial condition and led us to suspend payments on our financial debt at the time. We cannot assure you that the Argentine government will not adopt other policies that could adversely affect the Argentine economy or our business, financial condition or results of operations. In addition, we cannot assure you that future economic, regulatory, social and political developments in Argentina, will not impair our businesses, financial condition, or results of operations or cause the market value of our ADSs and Class B common shares to decline.

The global financial crisis and unfavorable credit and market conditions that commenced in 2007 may negatively affect our liquidity, customers, business, and results of operations

The ongoing effects of the global credit crisis and related turmoil in the global financial system may have a negative impact on our business, financial condition and results of operations, an impact that is likely to be more severe on an emerging market economy, such as Argentina. The effect of this economic crisis on our customers and on us cannot be predicted. Weak economic conditions could lead to reduced demand for energy, which could have a negative effect on our revenues. Economic factors such as unemployment, inflation levels and the availability of credit could also have a material adverse effect on demand for energy and therefore on our financial condition and operating results. In addition, our ability to access the credit or capital markets may be restricted at a time when we would need financing, which could have an impact on our flexibility to react to changing economic and business conditions. For these reasons, any of the foregoing factors or a combination of these factors could have an adverse effect on our results of operations and financial condition and cause the market value of our ADSs and Class B common shares to decline.

Argentina's economic recovery since the 2001 economic crisis may not be sustainable in light of current economic conditions, and any significant decline could adversely affect our financial condition

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Although the economy has recovered significantly since the 2001 crisis, uncertainty remains as to the sustainability of economic growth and stability. After the significant slowdown in the Argentine economy in 2009, which started in the last quarter of 2008 and continued into much of 2009 (impacted by the largest global crisis in decades and negative domestic factors), the Argentine economy experienced a growth of about 0.9% and during 2009 and 2010, respectively, according to preliminary official public estimates. Similarly, during 2011, the Argentine economy registered a growth of 8.9%. However, uncertainty remains about the sustainability of this growth. Sustainable economic growth is dependent on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the Peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable rate of inflation.

The Argentine economy remains fragile, as reflected by the following economic conditions:

- the availability of long-term credit is scarce;
- investment as a percentage of GDP remains too low to sustain the growth rate of recent years;
- fiscal surplus shows a steady decline, with risk of becoming a fiscal deficit in the near term;
- public debt remains high, as payments have increased (in line with post-default payment terms), while international financing remains limited;
- inflation has accelerated recently and threatens to continue at levels that risk economic stability;
- the regulatory environment continues to be uncertain;
- controls to exchange Pesos into foreign currencies or to transfer funds abroad continue to increase;
- the recovery has depended to some extent on high commodity prices, which despite having a favorable long-term trend, are volatile in the short-term and beyond the control of the Argentine government; and
- the trade balance surplus (and the fiscal surplus, to a lesser extent) is largely dependent on the production of grains and soybeans, such that risk to economic stability is magnified by the possibility of a new major drought affecting these crops (as was the case in 2008 and 2009).

As in the recent past, Argentina's economy may be adversely affected if political and social pressures inhibit the implementation by the Argentine government of policies designed to maintain price stability, generate growth and enhance consumer and investor confidence. This, in turn, could lead to decreased demand for our services as well as a decrease in collection rates from customers and increased energy losses due to illegal use of our services, which could materially adversely affect our financial condition and results of operations, or cause the market value of our ADSs and Class B common shares to decline. Furthermore, the Argentine government could respond to a lack of economic growth or stability by adopting measures that affect private sector enterprises, as it has done in the past, including the tariff restrictions imposed on public utility companies such as several of our subsidiaries.

We cannot assure you that a decline in economic growth or increased economic instability, developments over which we have no control, would not have an adverse effect on our business, financial condition or results of operations or would not have a negative impact on the market value of our ADSs and Class B common shares.

The impact of inflation in Argentina on our costs could have a material adverse effect on our results of operations

Inflation has, in the past, materially undermined the Argentine economy and the Argentine government's ability to create conditions that permit growth. According to data published by the *Instituto Nacional de Estadística y Censos* (National Statistics and Census Institute or INDEC), the rate of inflation reached 9.5% in 2011, 10.9% in 2010 and 7.7% in 2009. Inflation rates reported by several Argentine provinces on average refer to annual rates of inflation significantly in excess of those published by INDEC. Average inflation in the 11 provinces that publish independent inflation data was 14.2%, 23.8% and 20% for 2009, 2010 and 2011, respectively. The Argentine government has implemented programs to control inflation and monitor prices for essential goods and services, including price support arrangements agreed between the Argentine government and private sector companies in several industries and markets.

A return to a high inflation environment would undermine Argentina's foreign competitiveness by diluting the effects of the Peso devaluation, negatively impact the level of economic activity and employment and undermine confidence in Argentina's banking system, which could further limit the availability of domestic and international credit to businesses. In turn, a portion of the Argentine debt is adjusted by the *Coeficiente de Estabilización de Referencia* (Stabilization Coefficient or CER), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the Argentine external debt and consequently in Argentina's financial obligations, which could exacerbate the stress on the Argentine economy. A high inflation environment could also temporarily undermine our results of operations if we are temporarily unable, or if we are not able at all, to adjust our tariffs accordingly and could adversely affect our ability to finance the working capital needs of our businesses on favorable terms, and adversely affect our results of operations and cause the market value of our ADSs and Class B common shares to decline.

The credibility of several Argentine economic indexes has been called into question, which may lead to a lack of confidence in the Argentine economy and may in turn limit our ability to access the credit and capital markets

In January 2007, INDEC modified its methodology used to calculate the consumer price index (CPI), which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Further, at the time that INDEC adopted this change in methodology, the Argentine government also replaced certain key personnel at INDEC. The alleged governmental interference prompted complaints from the technical staff at INDEC, which, in turn, has led to the initiation of several judicial investigations involving members of the Argentine government aimed at determining whether there was a breach of classified statistical information relating to the collection of data used in the calculation of the CPI. These events have affected the credibility of the CPI index published by INDEC, as well as other indexes published by INDEC the calculation of which are based on the CPI, including poverty rates, the unemployment rate and the calculation of the GDP, among others. As a result, the inflation rate of Argentina and the other rates calculated by INDEC could be higher than as indicated in official reports. The International Monetary Fund is currently providing technical assistance to the Argentine government to improve the calculation and collection of inflation data. If these investigations result in a finding that the methodologies used to calculate the CPI or other INDEC indexes derived from the CPI were manipulated by the Argentine government, or if it is determined that it is necessary to correct the CPI and the other INDEC indexes derived from the CPI as a result of the methodology used by INDEC, there could be a significant decrease in confidence in the Argentine economy. Given the limited credit available to emerging market nations as a result of the global economic crisis, our ability to access credit in the capital markets could be limited by the uncertainty relating to the inaccuracy of the economic indexes and rates in question which could adversely affect our results of operations and financial conditions and cause the market value of our ADSs and Class B common shares to decline.

Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth, and consequently, may affect our business, results of operations and prospects for growth

In 2005, Argentina restructured part of its sovereign debt that had been in default since the end of 2001. The Argentine government announced that as a result of this restructuring, it had approximately U.S. \$129.2 billion in total gross public debt as of December 31, 2005. Certain bondholders that did not participate in that restructuring, mainly from the United States, Italy and Germany, have filed legal actions against Argentina to collect on the defaulted bonds. Many of these proceedings are still pending as of this date and holdout creditors may initiate new suits in the future.

On January 3, 2006, Argentina repaid in full its debt of approximately U.S. \$9.8 billion with the International Monetary Fund.

In September 2008, Argentina announced its intention to cancel its external public debt to Paris Club creditor nations using reserves of the Central Bank in an amount equal to approximately U.S. \$6.5 billion. However, as of the date of this annual report, the Argentine government has not yet cancelled such debt. Indeed, negotiations in this respect remain stagnant. If no agreement with the Paris Club creditor nations is reached, financing from multilateral financial institutions may be limited or not available, which could adversely affect economic growth in Argentina and Argentina's public finances.

Certain groups of holders that did not participate in the 2005 restructuring have filed claims against Argentina and it is possible that new claims will be filed in the future. In addition, foreign shareholders of several Argentine companies have filed claims before the ICSID (International Centre for Settlement of Investment Disputes) alleging that certain government measures adopted during the country's 2001 crisis were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties to which Argentina is a party. Since May 2005, the ICSID tribunals have issued several awards against Argentina. Only the cases "CMS v. Argentina", "Azurix v. Argentina" and "Vivendi v. Argentina" are currently final and unappealable, which decisions required that the Argentine government pay U.S. \$133.2 million, U.S. \$165.2 million and U.S. \$105 million, respectively. As of the date of this annual report, Argentina has not yet paid the amounts referred to above.

On April 30, 2010, Argentina launched a new debt exchange to holders of the securities issued in the 2005 debt exchange and to holders of the securities that were eligible to participate in the 2005 debt exchange (other than Brady bonds) to exchange such debt for new securities and, in certain cases, a cash payment. As a result of the 2005 and 2010 exchange offers, Argentina restructured over 91% of the defaulted debt eligible for the 2005 and 2010 exchange offers. The creditors who did not participate in the 2005 or 2010 exchange offers may continue with legal action against Argentina for the recovery of debt, which could adversely affect Argentina's access to the international capital markets.

Argentina's past default and its failure to restructure completely its remaining sovereign debt and fully negotiate with the holdout creditors may limit Argentina's ability to reenter the international capital markets. Litigation initiated by holdout creditors as well as ICSID claims have resulted and may continue to result in judgments and awards against the Argentine government which, if not paid, could prevent Argentina from obtaining credit from multilateral organizations. Judgment creditors have sought and may continue to seek to attach or enjoin assets of Argentina. In addition, various creditors have organized themselves into associations to engage in lobbying and public relations concerning Argentina's default on its public indebtedness. Such groups have over the years unsuccessfully urged passage of federal and New York state legislation directed at Argentina's defaulted debt and aimed at limiting Argentina's access to the U.S. capital markets. Although neither the United States Congress nor the New York state legislature has adopted such legislation, we can make no assurance that legislation or other political actions designed to limit Argentina's access to capital markets will not take effect.

In April 2010, a Court of New York granted an attachment over reserves of the Argentine Central Bank in the United States requested by creditors of Argentina on the theory that the Central Bank was its alter ego. In July 2011, an appeals court reversed that ruling, stating that the assets of the Central Bank were protected by law. Plaintiffs have petitioned the United States Supreme Court to review the appeals court decision and, as of the date of this annual report, the United States Supreme Court has not ruled if it will hear the case.

As a result of Argentina's default and the events that have followed it, the Argentine government may not have the financial resources necessary to implement reforms and foster economic growth, which, in turn, could have a material adverse effect on the country's economy and, consequently, our businesses and results of operations. Furthermore, Argentina's inability to obtain credit in international markets could have a direct impact on our own ability to access international credit markets to finance our operations and growth, which could adversely affect our results of operations and financial condition and cause the market value of our ADSs and Class B common shares to decline.

Significant fluctuations in the value of the Peso could adversely affect the Argentine economy, which could, in turn adversely affect our results of operations

The devaluation of the Peso in 2002 (a 238% decline against the U.S. Dollar) had a far-reaching negative impact on the financial condition of many businesses and individuals. The devaluation of the Peso had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, including public utilities and the financial industry, and adversely affected the Argentine government's ability to honor its foreign debt obligations. If the Peso devalues significantly, the negative effects on the Argentine economy could have adverse consequences to our businesses, our results of operations and the market value of our ADSs.

On the other hand, a substantial increase in the value of the Peso against the U.S. Dollar also presents risks for the Argentine economy, including a reduction in exports. Any such increase could have a negative effect on economic growth and employment, reduce the Argentine public sector's revenues from collection in real terms and have a material adverse effect on our business our result of operations and the market value of our ADSs as a result of the weakening of the Argentine economy in general.

Measures taken by the Argentine government to address social unrest may adversely affect the Argentine economy and our business and results of operations

During the economic crisis in 2001 and 2002, Argentina experienced social and political turmoil, including civil unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite the economic recovery and relative stability since 2002, social and political tensions and high levels of poverty and unemployment continue. Future government policies to preempt, or respond to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights and shareholders' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws, regulations and policies affecting foreign trade and investment. These policies or significant protests resulting therefrom could destabilize the country and adversely and materially affect the Argentine economy.

In March 2008, the Argentine Ministry of Economy and Production announced the adoption of new taxes on exports of a number of agricultural products. The taxes were to be calculated at incremental rates as the price for the exported products increased, and represented a significant increase in taxes on exports by the agricultural sector in Argentina. The adoption of these taxes met significant opposition from various political and economic groups with ties to the Argentine agricultural sector, including strikes by agricultural producers around the country, roadblocks to prevent the circulation of agricultural goods within Argentina and massive demonstrations in the City of Buenos Aires and other major Argentine cities. Although the Argentine congress did not pass these measures, we cannot assure you that the Argentine government will not reintroduce new export taxes or adopt other similar measures. In addition, further social unrest caused by such measures that could adversely affect the Argentine economy, increased damages to our networks as a result of protesters or illicit activity, which could have a material adverse effect on our financial condition, results of operations and the market value of our ADSs.

Exchange controls and restrictions on capital inflows and outflows may continue to limit the availability of international credit and could threaten the financial system and lead to renewed political and social tensions, adversely affecting the Argentine economy, and, as a result, our business

In 2001 and 2002, Argentina experienced a massive withdrawal of deposits from the Argentine financial system in a short period of time, which precipitated a liquidity crisis within the Argentine financial system and prompted the Argentine government to impose exchange controls and restrictions on the ability of depositors to withdraw their deposits and send funds abroad in an attempt to prevent capital flight and further depreciation of the Argentine Peso. Although some of these restrictions have been suspended, terminated or substantially relaxed, in June 2005 the Argentine government adopted various rules and regulations that established new restrictive controls on capital inflows into the country, including a requirement that for certain funds remitted into Argentina an amount equal to 30% of the funds must be deposited into an account with a local financial institution as a U.S. Dollar deposit for a one-year period without any accrual of interest, benefit or other use as collateral for any transaction. Since October 2011, the Argentine government has strengthened certain restrictions on the sale of foreign currency to non residents in connection with the repatriation of direct investments, and on the creation of foreign assets belonging to residents. See "Exchange Rates" and "Item 10. Exchange Controls." The Argentine government could impose new exchange controls or restrictions on the movement of capital and take other measures that could limit our ability to access the international capital markets and impair our ability to make interest or principal payments abroad or payments. Argentina may re-impose exchange controls, transfer restrictions or other measures in the future in response to capital flight or a significant depreciation of the Peso.

In the event of a future shock, such as the failure of one or more banks or a crisis in depositor confidence, the Argentine government could impose further exchange controls or transfer restrictions and take other measures that could lead to renewed political and social tensions and undermine the Argentine government's public finances, which could adversely affect Argentina's economy and prospects for economic growth, which, in turn, could adversely affect our business and results of operations and the market value of our ADSs. In addition, the Argentine government or the Central Bank may reenact certain restrictions on the transfers of funds abroad, impairing our ability to make dividend payments to holders of the ADSs, which may adversely affect the market value of our ADSs. As of the date of this annual report, however, the transfer of funds abroad to pay dividends is permitted to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders' meeting.

The nationalization of Argentina's private pension funds caused an adverse effect in the Argentine capital markets and increased the Argentine government's interest in certain stock exchange listed companies, such that the Argentine government became a significant shareholder of such companies

In recent years a significant portion of the local demand for securities of Argentine companies came from the Argentine private pension funds. In response to the global economic crisis, in December 2008, by means of Argentine Law No. 26,425, the Argentine Congress unified the Argentine pension and retirement system into a system publicly administered by the *Administración Nacional de la Seguridad Social* (National Social Security Agency or ANSES), eliminating the pension and retirement system previously administered by private managers. In accordance with the new law, private pension managers transferred all of the assets administered by them under the pension and retirement system to the ANSES. With the nationalization of Argentina's private pension funds, the local capital markets decreased in size and became substantially concentrated. In addition, the Argentine government became a significant shareholder in many of the country's public companies. In April 2011, the Argentine government lifted certain restrictions pursuant to which ANSES was prevented from exercising more than 5% of its voting rights in any stock exchange listed company (regardless of the equity interest held by ANSES in such companies). ANSES has publicly stated that it intends to exercise its voting rights in excess of such 5% limit in order to appoint directors in different stock exchange listed companies in which it holds an interest exceeding 5%. ANSES' interests may differ from those of other investors, and consequently, if ANSES acquires a more prevailing role in any Argentine listed companies in which it owns shares, ANSES' actions might have an adverse effect on such companies and, to a certain extent, on domestic capital markets. As of the date of this annual report ANSES owns shares representing 20.96% of the capital stock of our subsidiary Emdersa and 25.3% of the capital stock of Edenor.

The Argentine government has stated its intention to exert a stronger influence on the operation of stock exchange listed companies. We cannot assure you that these or other similar actions taken by the Argentine government will not have an adverse effect on the Argentine economy and consequently on our financial condition and results of operations.

The Argentine economy could be adversely affected by economic developments in other global markets

Argentine financial and securities markets are influenced, to varying degrees, by economic and financial conditions in other markets. Although economic conditions can vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows to other countries and the value of securities in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation of its currency in January 1999. In addition, Argentina may be affected by events in the economies of its major regional trading partners, including, for example, currency devaluations caused by the global economic crisis that continue to affect it.

Also, the Argentine economy might be affected by occurring events in developed countries that are its commercial partners or which may have an impact on the global economy. In addition, the global financial crisis that commenced in the last quarter of 2008 has affected and may continue to negatively affect the economies of several countries around the world including Argentina and certain of its trading partners. Developed economies like the United States have sustained some of the most severe effects while some emerging economies like that of China and Brazil have suffered comparatively milder effects. More recently, several European countries, such as Ireland, Greece, Portugal, Spain, the United Kingdom and Italy, have revealed significant macroeconomic imbalances. In addition, on August 5, 2011, Standard & Poor's Financial Services LLC downgraded the debt instruments issued by the United States and on January 13, 2012, Standard & Poor's Rating Services downgraded the instruments of nine European countries including France and Italy. Financial markets have reacted adversely curtailing the ability of certain of these countries to refinance their outstanding debt. The impact of this crisis on Argentina could include a reduction in exports and foreign direct investment, a decline in national tax revenues and an inability to access international capital markets, which could adversely affect our business, results of operations and the market value of our ADSs. The realization of any or all of these risk factors, as well as events that may arise in the main regional partners, including members of Mercosur, could have a material adverse effect on the Argentine economy and, indirectly, on our business, financial condition and results of operations and the market value of our ADSs.

The actions taken by the Argentine government to reduce imports may affect our ability to purchase significant capital goods

The Argentine government has recently adopted some initiatives designed to limit the import of goods in order to prevent further deterioration of the Argentine balance of trade. The restriction of imports may limit our ability to purchase capital goods that are necessary for our operations, which may, in turn, adversely affect our business, financial condition and results of operations.

Risks Relating to the Electricity Distribution Sector

The Argentine government has intervened in the electricity sector in the past, and is likely to continue intervening

To address the Argentine economic crisis in 2001 and 2002, the Argentine government adopted the Public Emergency Law and other regulations, which made a number of material changes to the regulatory framework applicable to the electricity sector. These changes severely affected electricity distribution companies and included the freezing of distribution margins, the revocation of adjustment and inflation indexation mechanisms for tariffs and a limitation on charging our customers the increases of certain regulatory charges. In addition, a new price-setting mechanism was introduced in the wholesale electricity market, which had a significant impact on electricity generators and has led to significant price mismatches between participants in our market. The Argentine government continues to intervene in this sector, including granting temporary margin increases, proposing a new social tariff regime for residents of poverty-stricken areas, creating specific charges to raise funds that are transferred to government-managed trust funds that finance investments in distribution infrastructure and mandating investments for the construction of new generation plants and the expansion of existing transmission and distribution networks.

Furthermore, on November 15, 2011, the Secretary of Energy issued Note No.8752/11 ("Note 8752"), which provided that any approval by the provincial governments of increases to the electricity tariffs applicable to end-users as of November 1, 2011 will trigger a proportionate decrease in the federal subsidy available to that end-user in connection with the purchase of electricity. Since the issuance of Note 8752, certain provincial governments have initiated legal proceedings to challenge the jurisdiction of the Secretary of Energy to issue Note 8752, particularly because of the potential chilling effect that this regulation may have on the ability of the provincial governments to increase electricity tariffs. These proceedings have not been resolved as of the date of this annual report.

We cannot assure you that these or other measures that may be adopted by the Argentine government will not have a material adverse effect on our business and results of operations or on the market value of our ADSs, or that the Argentine government will not adopt emergency legislation similar to the Public Emergency Law, or other similar resolutions, in the future that may further increase our regulatory obligations, including increased taxes, unfavorable alterations to our tariff structures and other regulatory obligations, compliance with which would increase our costs and have a direct negative impact on our results of operations and cause the market value of our ADSs and Class B common shares to decline.

Electricity distributors were severely affected by the emergency measures adopted during the economic crisis, many of which remain in effect

Distribution tariffs include a regulated margin that is intended to cover the costs of distribution and provide an adequate return over the distributor's asset base. Under the Convertibility Regime, distribution tariffs were calculated in U.S. Dollars and distribution margins were adjusted periodically to reflect variations in U.S. inflation indexes. Pursuant to the Public Emergency Law, in January 2002 the Argentine government froze all distribution margins, revoked all margin adjustment provisions in distribution concessions and converted distribution tariffs into Pesos at a rate of Ps. 1.00 per U.S. \$ 1.00. These measures, coupled with the effect of high inflation and the devaluation of the Peso, led to a decline in distribution revenues in real terms and an increase of distribution costs in real terms, which could no longer be recovered through adjustments to the distribution margin. This situation, in turn, led many public utility companies, including us and other important distribution companies, to suspend payments on their financial debt (which continued to be denominated in U.S. Dollars despite the pesification of revenues), effectively preventing these companies from obtaining further financing in the domestic or international credit markets and making additional investments. Although the Argentine government has recently granted temporary relief to some distribution companies, including an increase in distribution margins and a temporary cost adjustment mechanism, distribution companies are currently involved in discussions with regulators on additional, permanent measures needed to adapt the current tariff scheme to the post-crisis situation of this sector. We cannot assure you that these measures will be adopted or implemented or that, if adopted, they will be sufficient to address the structural problems created for us by the economic crisis and its aftermath. If we become unable to cover the costs of distribution or receive an adequate return on our asset on our base, our results of operations may be adversely affected.

Electricity demand may be affected by tariff increases, which could lead distribution companies, such as us, to record lower revenues

During the 2001 and 2002 economic crisis, electricity demand in Argentina decreased due to the decline in the overall level of economic activity and the deterioration in the ability of many consumers to pay their electricity bills. In the years following the 2001 and 2002 economic crisis electricity demand experienced significant growth, increasing at an estimated average of approximately 5.0% per annum from 2003 through 2011. This increase in demand reflects the relative low cost, in real terms, of electricity to consumers due to the freeze of distribution margins and the elimination of the inflation adjustment provisions in distribution concessions coupled with the devaluation of the Peso and inflation. The executive branch of the Argentine government granted temporary increases in distribution margins, and we are currently negotiating further increases and adjustments to our tariff schemes with the Argentine government. Although the recent increases in distribution margins, which increased the cost of electricity to residential customers, have not had a significant negative effect on demand, we cannot make any assurances that these increases or any future increases in the relative cost of electricity will not have a material adverse effect on electricity demand or a decline in collections from customers. Further, in November 2011, the Argentine government announced a cut in subsidies for electricity granted to certain customers that are presumably in a position to face its real cost. These measures are currently in an early stage of implementation and we cannot ascertain as of the date of this report what the effect on our revenues could be. See "Item 5. Operating and Financial Review and Prospects—Factors Affecting our Results of Operations—Recognition of Cost of Electric Power Purchases." However, we cannot assure you that these measures or any future measures (including increases on tariffs for residential users) will not lead distribution companies, such as us, to record lower revenues and results of operations than currently anticipated, which may, in turn, have a material adverse effect on the market value of our ADSs.

If we experience continued energy shortages in the face of growing demand for electricity, our ability to deliver electricity to our customers could be adversely affected, which could result in customer claims, material penalties and decreased results of operations

In recent years, the condition of the Argentine electricity market has provided little incentive to generators to further invest in increasing their generation capacity, which would require material long-term financial commitments. As a result, Argentine electricity generators are currently operating at near full capacity and may not be able to guarantee the supply of electricity to distribution companies, such as us, which, in turn, could limit the ability of these companies, including us, to provide electricity to customers, and could lead to a decline in growth of such companies. Under Argentine law, distribution companies, such as us, are responsible to their customers for any disruption in the supply of electricity. To date, the Argentine authorities have not been called upon to decide under which conditions energy shortages may constitute *force majeure*. In the past, however, the Argentine authorities have taken a restrictive view of *force majeure* and have recognized the existence of *force majeure* only in limited circumstances, such as internal malfunctions at the customer's facilities, extraordinary meteorological events (such as major storms) and third-party work in public thoroughfares. As a result, we could face customer claims and fines and penalties for service disruptions caused by energy shortages unless the relevant Argentine authorities determine that energy shortages constitute *force majeure*, which claims, fines and penalties could have a materially adverse effect on our financial condition and results of operations, and cause the market value of our ADSs and Class B common shares to decline.

Risks Relating to Our Business

Failure or delay to negotiate further improvements to our tariff structure, including increases in our distribution margin, and/or to have our tariff adjusted to reflect increases in our distribution costs in a timely manner, could have a material adverse effect on our capacity to perform our financial and commercial obligations. As a result, there is substantial doubt with respect to the ability of the Company to continue as a going concern.

We are currently engaged in RTI with the ENRE, as required by the agreement entered into with the Argentine government in February 2006 relating to the adjustment and renegotiation of the terms of our concession (the "Adjustment Agreement") but the timeline for completing this process and the favorability to us of the final resolution are both uncertain.

The Adjustment Agreement currently contemplates a cost adjustment mechanism for the transition period during which the RTI is being conducted. This mechanism, known as the Cost Monitoring Mechanism (CMM), requires the ENRE to review our actual distribution costs every six months (in May and November of each year) and adjust our distribution margins to reflect variations of 5% or more in our distribution cost base. We may also request that the ENRE apply the CMM at any time that the variation in our distribution cost base is at least 10% or more. Any adjustments, however, are subject to the ENRE's assessment of variations in our costs, and we cannot guarantee that the ENRE will approve adjustments that are sufficient to cover our actual incremental costs. In the past, even when the ENRE has approved adjustments to our tariffs, there has been a lag between when we actually experience increases in our distribution costs and when we receive increased revenues following the corresponding adjustments to our distribution margins pursuant to the CMM. Despite the adjustment we were granted under the CMM in October 2007 and July 2008, we cannot assure you that we will receive similar adjustments in the future. As of the date of this annual report we have requested eight increases under the CMM beginning in May 2008, which increases are still being reviewed by the ENRE. Under the terms of the Adjustment Agreement, these eight increases should have been approved in May 2008, November 2008, May 2009, November 2009, May 2010, November 2010, May 2011 and November 2011.

During the year ended December 31, 2011, we recorded a significant decrease in net income and operating income, and our working capital and liquidity levels were negatively affected, primarily as a result of the delay in obtaining a tariff increase and in having our tariff adjusted to reflect increases in our distribution costs, coupled with a constant increase in operating costs to maintain adequate service levels.

If we are not able to recover all of the incremental costs contemplated by the increase requests pursuant to the CMM and all such future cost increases or there is a significant lag time between when we incur the incremental costs and when we receive increased revenues, and/or if we are not successful in achieving a satisfactory re-negotiation of our tariff structure, we may be unable to comply with our financial and commercial obligations, we may suffer liquidity shortfalls and we may need to restructure our debt to ease our financial condition, any of which individually or in the aggregate, would have a material adverse effect on our business and results of operations and may cause the value of our ADSs to decline. As a result, there is substantial doubt with respect to the ability of the Company to continue as a going concern and our auditors' report included elsewhere in this annual report contains an explanatory paragraph expressing substantial doubt as to our ability to continue as a going concern.

We have prepared our annual financial statements for the fiscal year ended December 31, 2011 included herein, assuming that we will continue as a going concern. Our independent auditors, PWC, issued a report dated April 26, 2012 on our financial statements as of and for the years ended December 31, 2011 and 2010, which contains an explanatory paragraph expressing substantial doubt as to our ability to continue as a going concern. As discussed in Notes 2 and 8.c to the financial statements, the delays in obtaining tariff increases, recognition of cost adjustments requested by the Company in accordance with the terms of the Adjustment Agreement and the continuous increase in operating expenses have affected significantly the economic and financial position of the Company and have raised substantial doubt with respect to our ability to continue as a going concern. Management's plans in response to these matters are also described in Note 2. However, our financial statements as of and for the year ended December 31, 2011 and 2010 do not include any adjustments or reclassifications that might result from the outcome of this uncertainty. See Item 18: "Financial Statements."

The goal of the RTI is to achieve a comprehensive revision of our tariff structure, including further increases in our distribution margins and periodic adjustments based on changes in our cost base, to provide us with an adequate return on our asset base. Although we believe the RTI will result in a new tariff structure, we cannot assure you that the RTI will conclude in a timely manner or at all, or that the new tariff structure will effectively cover all of our costs or provide us with an adequate return on our asset base. Moreover, the RTI could result in the adoption of an entirely new regulatory framework for our business, with additional terms and restrictions on our operations and the imposition of mandatory investments. We also cannot predict whether a new regulatory framework will be implemented and what terms or restrictions could be imposed on our operations.

Our distribution tariffs may be subject to challenge by Argentine consumer and other groups

In November 2006, two Argentine consumer associations, Asociación Civil por la Igualdad y la Justicia (ACIJ) and Consumidores Libres Cooperativa Limitada de Provisión de Servicios de Acción Comunitaria, brought an action against us and the Argentine government before a federal administrative court seeking to block the ratification of the Adjustment Agreement on the grounds that the approval mechanism was unconstitutional. In March 2007, the federal administrative court dismissed these claims and ruled in our favor on the grounds that the adoption of Executive Decree No. 1957/06, which ratified the Adjustment Agreement, rendered this action moot. The ACIJ appealed this decision in April 2007, and the appeal was decided in our favor. However, in April 2008, the ACIJ filed another complaint challenging the procedures utilized by the Argentine Congress in approving the Adjustment Agreement, to which we timely replied. In addition, in 2008, the *defensor del pueblo* (Public Ombudsman) filed a claim opposing the resolutions establishing the tariff schedule, effective as of October 1, 2008, and naming us as defendant. On January 27, 2009, the ENRE notified us of a preliminary injunction, as a result of the Ombudsman's claim, pursuant to which we were ordered to refrain from cutting the energy supply to customers challenging the October 2008 tariff increase until a decision is reached with respect to the claim. This injunction has been appealed by us and the Argentine government, the resolution of which is still pending as of the date of this annual report. In addition, in December 2009, another Argentine consumer association, *Unión de Usuarios y Consumidores*, brought an action against us and the Argentine government seeking to annul certain retroactive tariff increases. In November 2010, the relevant court upheld the claim. We appealed the court's order and requested that it be stayed pending a decision on the appeal. In December 2010, the court stayed its order pending a decision on the appeal. On June 1, 2011, the Administrative Court of Appeals (*Cámara Nacional de Apelaciones en lo Contencioso Administrativo Federal - Sala V*) overturned the judgment of the lower administrative court. The Argentine consumer association may file an extraordinary appeal ("Recurso Extraordinario Federal") to have the case tried by the Argentine Supreme Court. As of the date of this annual report, to our knowledge, the Argentine consumer association has not filed such extraordinary appeal. We cannot make assurances regarding how these complaints will be resolved (nor, in the action brought by *Unión de Usuarios y Consumidores* in December 2009, whether the plaintiff may decide to file an extraordinary appeal as described above) nor can we make assurances that other actions or requests for injunctive relief will not be brought by these or other groups seeking to reverse the adjustments we have obtained or to block any further adjustments to our distribution tariffs. If these legal challenges are successful and prevent us from implementing tariff adjustments granted by the Argentine government, we could face a decline in collections from our customers, and a decline in our results of operations, which may have a material adverse effect on our financial condition and the market value of our ADSs.

We have been, and may continue to be, subject to fines and penalties that could have a material adverse effect on our financial condition and results of operations

We operate in a highly regulated environment and have been and in the future may continue to be subject to significant fines and penalties by regulatory authorities, including for reasons outside our control, such as service disruptions attributable to problems at generation facilities or in the transmission network that result in a lack of electricity supply. After 2001, the amount of fines and penalties imposed on our company has increased significantly, which we believe is mainly due to the economic and political environment in Argentina following the 2001 and 2002 economic crisis. Although the Argentine government has agreed to forgive a significant portion of our accrued fines and penalties pursuant to the Adjustment Agreement and to allow us to repay the remaining balance over time, this forgiveness and repayment plan is subject to a number of conditions, including compliance with quality of service standards, reporting obligations and required capital investments. As of December 31, 2011, our consolidated accrued fines and penalties totaled Ps. 542.2 million (taking into account our adjustment to fines and penalties following the ratification of the Adjustment Agreement). If we fail to comply with any of these conditions, the Argentine government may seek to obtain payment of these fines and penalties by our company. In addition, we cannot assure you that we will not incur material fines in the future, which could have a material adverse effect on our financial condition, our results of operations and the market value of our ADSs.

If we are unable to control our energy losses, our results of operations could be adversely affected

Our concession does not allow us to pass through to our customers the cost of additional energy purchased to cover any energy losses that exceed the loss factor contemplated by our concession, which is, on average, 10%. As a result, if we experience energy losses in excess of those contemplated by our concession, we may record lower operating profits than we anticipate. Prior to the 2001 and 2002 economic crisis, we had been able to reduce the high level of energy losses experienced at the time of the privatization to the levels contemplated (and reimbursed) under our concession. However, during the 2001 and 2002 economic crisis and during the years ended December 31, 2009 and 2010, our level of energy losses, particularly our non-technical losses, started to grow again, in part as a result of the increase in poverty levels and, with it, the number of delinquent accounts and fraud. Although we have been able to reduce energy losses in recent periods, these losses continue to exceed the 10% average loss factor in the concession, and based on the current economic turmoil, we do not expect these losses to decrease in the near term. Our energy losses amounted to 12.6% in 2011, 12.5% in 2010, 11.9% in 2009 and 10.8% in 2008. We cannot assure you that our energy losses will not increase again in future periods, which may lead us to have lower margins and could adversely affect our financial condition, our results of operations and the market value of our ADSs.

The Argentine government could foreclose on the pledge of our Class A common shares under certain circumstances, which could have a material adverse effect on our business and financial condition

Pursuant to our concession and the provisions of the Adjustment Agreement, the Argentine government has the right to foreclose on the pledge of our Class A common shares and sell these shares to a third party buyer if:

- the fines and penalties we incur in any given year exceed 20% of our gross energy sales, net of taxes (which corresponds to our energy sales);
- we repeatedly and materially breach the terms of our concession and do not remedy these breaches upon the request of the ENRE;
- our controlling shareholder, EASA, creates any lien or encumbrance over our Class A common shares (other than the existing pledge in favor of the Argentine government);
- we or EASA obstruct the sale of Class A common shares at the end of any management period under our concession;
- EASA fails to obtain the ENRE's approval in connection with the disposition of our Class A common shares;
- our shareholders amend our articles of incorporation or voting rights in a way that modifies the voting rights of the Class A common shares without the ENRE's approval; or
- We, or any existing shareholders or former shareholders of EASA who has brought a claim against the Argentine government in the ICSID does not desist from its ICSID claims following completion of the RTI and the approval of a new tariff regime.

In 2011, the fines and penalties imposed on us by the ENRE amounted to Ps. 81.1 million, which represented 3.6% of our energy sales. See "Item 4. Information on the Company –Our Concession–Fines and Penalties."

If the Argentine government were to foreclose on the pledge of our Class A common shares, pending the sale of those shares, the Argentine government would also have the right to exercise the voting rights associated with such shares. In addition, the foreclosure by the Argentine government on the pledge of our Class A common shares may be deemed to constitute a change of control under the terms of our Senior Notes issued in October 2007, October 2010 and April 2011, which would require us to offer to repurchase all such debt at its face value. We cannot assure you that we will have sufficient funds or access to financing to effect such repurchases. If the Argentine government forecloses on the pledge of our Class A common shares, our results of operations and financial condition could be significantly affected and the market value of our ADSs could be affected too.

Default by the Argentine government could lead to termination of our concession, and have a material adverse effect on our business and financial condition

If the Argentine government breaches its obligations in such a way that we cannot comply with our obligation under our concession or in such a way that our service is materially affected, we can request the termination of our concession, after giving the Argentine government 90 days' prior notice. Upon termination of our concession, all our assets used to provide electricity distribution service would be transferred to a new state-owned company to be created by the Argentine government, whose shares would be sold in an international public bidding procedure. The amount obtained in such bidding would be paid to us, net of the payment of any debt owed by us to the Argentine government, plus compensation established as a percentage of the bidding price, ranging from 10% to 30% depending on the management period in which the sale occurs. Any such default could have a material adverse effect on our business and financial condition.

We employ a largely unionized labor force and could be subject to an organized labor action, including work stoppages that could have a material effect on our business

As of December 31, 2011, approximately 82% of our employees were union members. Although our relations with unions are currently stable and we have had an agreement in place with the two unions representing our employees since 1995, we cannot assure you that we will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business and revenues, especially in light of the social tensions generated in Argentina by the economic crisis. We cannot assure you that we will be able to negotiate salary agreements on the same terms as those currently in effect, or that we will not be subject to strikes or work stoppages before or during the negotiation process. If we are unable to negotiate salary agreements or if we are subject to strikes or work stoppages, our results of operations, financial condition and the market value of our ADSs could be materially adversely affected.

As of December 31, 2011, approximately 84% of Eden employees were union members.

We might incur material labor liabilities in connection with our outsourcing that could have an adverse effect on our business and results of operation

We outsource a number of activities related to our business to third party contractors in order to maintain a flexible cost base. As of December 31, 2011, we had approximately 2,796 third-party employees under contract. Although we have very strict policies regarding compliance with labor and social security obligations by our contractors, we are not in a position to ensure that contractors' employees will not initiate legal actions to seek indemnification from us based upon a number of judicial rulings issued by labor courts in Argentina recognizing joint and several liability between the contractor and the entity to which it is supplying services under certain circumstances. We cannot make any assurances that such proceedings will not be brought against us or that the outcome of such proceedings would be favorable to us. If we were to incur material labor liabilities in connection with our outsourcing, such liability could have an adverse effect on our financial condition, our results of operations and the market value of our ADSs.

We currently are not able to effectively hedge our currency risk in full and, as a result, a devaluation of the Peso may have a material adverse effect on our results of operations and financial condition

Our revenues are collected in Pesos pursuant to tariffs that are not indexed to the U.S. Dollar, while a significant portion of our existing financial indebtedness is denominated in U.S. Dollars, which exposes us to the risk of loss from devaluation of the Peso. We currently seek to hedge this risk in part by converting a portion of our excess cash denominated in Pesos into U.S. Dollars and investing those funds outside Argentina, as permitted by applicable Argentine Central Bank regulations and entering in currency forward contracts, but we continue to have substantial exposure to the U.S. Dollar. We cannot assure you that the Argentine government will continue to allow us to access the market to acquire U.S. Dollars in the manner we have done so to date. Although we may also seek to enter into further hedging transactions to cover all or a part of our remaining exposure, we have not been able to hedge all of our exposure to the U.S. Dollar on terms we consider viable for our company. If we continue to be unable to effectively hedge all or a significant portion of our currency risk exposure, a devaluation of the Peso may significantly increase our debt service burden, which, in turn, may have a material adverse effect on our financial condition and results of operations.

In the event of an accident or event not covered by our insurance, we could face significant losses that could materially adversely affect our business and results of operations

As of December 31, 2011, our physical assets were insured for up to U.S. \$734.4 million. However, we do not carry insurance coverage for losses caused by our network or business interruption, including loss of our concession. See "Item 4. Information on the Company—Our Business—Insurance." Although we believe our insurance coverage is commensurate with standards for the distribution industry, no assurance can be given of the existence or sufficiency of risk coverage for any particular risk or loss. If an accident or other event occurs that is not covered by our current insurance policies, we may experience material losses or have to disburse significant amounts from our own funds, which may have a material adverse effect on our net profits and our overall financial condition and on the market value of our ADSs.

A substantial number of our assets are not subject to attachment or foreclosure and the enforcement of judgments obtained against us by our shareholders may be substantially limited

A substantial number of our assets are essential to the public service we provide. Under Argentine law, as interpreted by the Argentine courts, assets which are essential to the provision of a public service are not subject to attachment or foreclosure, whether as a guarantee for an ongoing legal action or to allow for the enforcement of a legal judgment. Accordingly, the enforcement of judgments obtained against us by our shareholders may be substantially limited to the extent our shareholders seek to attach those assets to obtain payment on their judgment.

If our controlling shareholder fails to meet its debt service obligations, its creditors may take measures that could have a material adverse effect on our results of operations

In July 2006, EASA completed a comprehensive restructuring of all of its outstanding financial indebtedness, which had been in default since 2002. In connection with this restructuring, EASA issued approximately U.S. \$85.3 million in U.S. Dollar-denominated notes in exchange for the cancellation of approximately 99.94% of its outstanding financial debt. Since EASA's ability to meet its debt service obligations under these notes depends largely on our ability to pay dividends or make distributions or payments to EASA, our failure to do so could result in EASA becoming subject to actions by its creditors, including the attachment of EASA's assets and petitions for involuntary bankruptcy proceedings. If EASA's creditors were to attach our Class A common shares held by EASA, the Argentine government would have the right under our concession to foreclose on the pledge of our Class A common shares held by the Argentine government, which would trigger a repurchase obligation under the terms of our restructured debt and our Senior Notes issued in October 2007, October 2010 and April 2011, and have a material adverse effect on our results of operations and financial condition.

Our exclusive right to distribute electric energy in our service area may be adversely affected by technological or other changes in the energy distribution industry, which would have a material adverse effect on our business

Although our concession grants us the exclusive right to distribute electric energy within our service area, this exclusivity may be revoked in whole or in part if technological developments would make it possible for the energy distribution industry to evolve from its present condition as a natural monopoly into a competitive business. In no case does the complete or partial revocation of our exclusive distribution rights entitle us to claim or to obtain reimbursement or indemnity. Although, to our knowledge, there are no current projects to introduce new technologies in the medium- or long-term which might reasonably modify the composition of the electricity distribution business, we cannot assure you that future developments will not enable competition in our industry that would adversely affect the exclusivity right granted by our concession. Any total or partial loss of our exclusive right to distribute electricity within our service area would likely lead to increased competition and result in lower revenues, which could have a material adverse effect on our financial condition, our results of operations and the market value of our ADSs.

Our acquisition of Emdersa and Aeseba and the subsequent divestiture of the subsidiaries of Emdersa are subject to perfunctory approval by the Argentine Antitrust Commission and, in some cases, by the ENRE and Edenor may fail to realize the anticipated benefits of the acquisitions and divestitures, and the integration of these companies with our distribution operations may present significant challenges.

In March 2011, we acquired Emdersa and Aeseba and several related companies, which are now our subsidiaries. Since then, we have decided to divest the subsidiaries of Emdersa. These acquisitions and divestitures are subject to perfunctory approval by the Argentine Antitrust Commission and, in some cases, by the ENRE. Although we have submitted all required documentation to the Argentine Antitrust Commission and to the ENRE, we cannot assure you that the Argentine Antitrust Commission or ENRE, as applicable, will authorize such acquisitions and, therefore, the acquisitions may be revoked or the divestitures may never be perfected if the relevant approvals are not granted.

In addition, we may face significant challenges in integrating Aeseba's operations and streamlining procedures in a timely and efficient manner while retaining key personnel from the acquired company. The integration of the assets of Aeseba will be costly, complex and time-consuming, and will require substantial management attention. These costs could be greater than we currently anticipate, which could reduce our profitability. The integration of this business could also disrupt the operation of our current business and Aeseba's existing business, or result in additional administrative procedures or regulatory oversight. It could also adversely affect our and Aeseba's ability to maintain relationships with customers, suppliers, employees and others with whom we may have business dealings. If we were to incur significant integration cost overruns or if the proposed integration would materially disrupt our existing business, this could have an adverse effect on our financial condition, our results of operations and the market value of our ADSs.

Because our financial statements are prepared under Argentine GAAP, which differs from US GAAP and IFRS with respect to corporate disclosure and accounting rules, information about us may not be as detailed or comprehensive as that of companies reporting under US GAAP or IFRS, including that of companies in the United States

Our financial statements are prepared in Pesos and in accordance with Argentine GAAP. Our financial statements under Argentine GAAP may not provide you with the information you would have received if our financial statements were prepared under U.S. GAAP or under IFRS. Publicly available information about public companies in Argentina is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States or European markets. Furthermore, there is a less extensive regulation of the Argentine securities markets and of the activities of the investors in these markets as compared to the securities markets in the United States, European markets and certain other international financial markets. Argentine GAAP differs in certain significant respects from U.S. GAAP, SEC rules and regulations, and IFRS.

The Company is obligated to adopt IFRS as from the fiscal year beginning on January 1, 2012. See "Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies—Adoption of IFRS." On April 27, 2010, the Company's Board of Directors approved a specific implementation plan pursuant to the CNV's General Resolution No. 562/09. The first annual and quarterly financial statements prepared by the Company pursuant to IFRS will be those corresponding to the year ended December 31, 2012 and the quarterly period ended March 31, 2012, respectively. As of the date of this annual report, the Company has reached certain preliminary conclusions regarding the principal impacts of the implementation of IFRS by the Company. The effects of the adoption of IFRS and the reconciliations between the Argentine GAAP and IFRS are included in note 22 to the audited consolidated financial statements.

Risks relating to ADSs and our Class B common shares

Restrictions on the movement of capital out of Argentina may impair the ability of holders of ADRs to receive dividends and distributions on, and the proceeds of any sale of, the Class B common shares underlying the ADSs

The Argentine government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the Argentine government to impose these kinds of restrictions temporarily in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine government implemented an unexpected number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad, including dividends, without prior approval by the Central Bank, some of which are still in effect. Among the restrictions that are still in effect are those relating to the payment prior to maturity of the principal amount of loans, bonds or other securities owed to non-Argentine residents, the requirement for Central Bank approval prior to acquiring foreign currency for certain types of investments and the requirement that 30% of certain types of capital inflows into Argentina be deposited in a non-interest-bearing account in an Argentine bank for a period of one year. Although the transfer of funds abroad in order to pay dividends no longer requires Central Bank approval to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders' meeting, restrictions on the movement of capital to and from Argentina such as those that previously existed could, if reinstated, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of shares, as the case may be, from Pesos into U.S. Dollars and the remittance of such U.S. Dollars abroad. We cannot assure you that the Argentine government will not take similar measures in the future. In such a case, the depositary for the ADSs may hold the Pesos it cannot otherwise convert for the account of the ADS holders who have not been paid. Nonetheless, the adoption by the Argentine government of restrictions on the movement of capital out of Argentina may affect the ability of our foreign shareholders and holders of ADSs to obtain the full value of their shares and ADSs and may adversely affect the market value of our ADSs.

Our ability to pay dividends is limited

In accordance with Argentine corporations law, we may only pay dividends in Pesos out of our retained earnings, if any, as set forth in our audited consolidated financial statements prepared in accordance with Argentine GAAP. Our ability to pay dividends, however, is further restricted in accordance with the terms of the Adjustment Agreement, pursuant to which we have agreed not to pay dividends without the ENRE's prior approval until we complete the RTI. We cannot predict with any certainty when this process will be completed.

Our shareholders' ability to receive cash dividends may be limited

Our shareholders' ability to receive cash dividends may be limited by the ability of the depositary to convert cash dividends paid in Pesos into U.S. Dollars. Under the terms of our deposit agreement with the depositary for the ADSs, the depositary will convert any cash dividend or other cash distribution we pay on the common shares underlying the ADSs into U.S. Dollars, if it can do so on a reasonable basis and can transfer the U.S. Dollars to the United States. If this conversion is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depositary cannot convert the foreign currency, shareholders may lose some or all of the value of the dividend distribution.

Under Argentine law, shareholder rights may be fewer or less well defined than in other jurisdictions

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, the rights of holders of the ADSs or the rights of holders of our common shares under Argentine corporations law to protect their interests relative to actions by our board of directors may be fewer and less well-defined than under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine securities markets are not as highly regulated or supervised as the U.S. securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in Argentina than in the United States, putting holders of our common shares and ADSs at a potential disadvantage.