

RISK FACTORS

Risks Related to Argentina

General

We are a stock corporation (*sociedad anónima*) incorporated under the laws of the Republic of Argentina and substantially all of our revenues are earned in Argentina and substantially 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 and political conditions prevailing in Argentina. For example, lower economic growth or economic recession could lead to lower demand for electricity in the service areas in which our subsidiaries operate or a decline in purchasing power of our customers, which, in turn, could lead to lower collections from our clients or growth in energy losses due to illegal use of the services provided by our power generation, transmission and distribution businesses. Argentine government actions 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. We cannot provide any assurance that future economic, social and political developments in Argentina, such as the upcoming congressional and presidential elections, over which we have no control, will not impair our businesses, financial condition, or results of operations or cause the market value of our ADSs 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 or lower prices 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. The financial and economic situation may also have a negative impact on third parties with whom we do, or may do, business. 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 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 slowdown in Argentina's 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), 2010 experienced a growth of about 9.2%, according to official public estimates. However, uncertainty about the sustainability of this growth rate remains. 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 and relatively low rate of inflation.

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

- unemployment remains high;
- 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;

- the Argentine government's fiscal surplus shows a steady decline with risk of becoming a fiscal deficit in the near term;
- Argentina's public debt remains high and international financing is limited;
- inflation has accelerated recently and may rise to levels that threaten economic stability;
- the regulatory environment continues to be uncertain;
- 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 surplus (and the fiscal surplus to a lesser extent) depends largely on the production of grains and soybeans, such that the risk is magnified by the possibility of a new major drought affecting the crop (as in the 2008-2009 campaign).

As in the recent past, Argentina's economy may suffer 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 lower demand for the services provided by our subsidiaries as well as lower collection rates from clients and growth in energy losses due to illegal use of the services provided by our businesses, which could materially adversely affect our financial condition and results of operations. Furthermore, as it has done in the past, the Argentine government could respond to a lack of economic growth or stability by adopting measures that affect private sector enterprises, including the tariff restrictions imposed on public utility companies such as several of our subsidiaries.

We cannot provide any assurance 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.

The continuing rise in inflation may have adverse effects on the Argentine economy, which could, in turn, have a material adverse effect on our results of operations

According to data published by the National Statistics and Census Institute (*Instituto Nacional de Estadística y Censos*, or INDEC), the rate of inflation reached 10.9% in 2010, 7.7% in 2009 and 7.2% in 2008. Over the course of the past several years, the Argentine government has implemented several programs to control inflation and monitor prices for most relevant goods and services. These government actions included price support arrangements agreed to by the Argentine government and private sector companies in several industries and markets.

Uncertainty surrounding future inflation and the current economic situation could slow economic recovery. In the past, inflation has materially undermined the Argentine economy and the government's ability to create conditions that permit growth. A return to a high inflation environment would also undermine Argentina's foreign competitiveness by diluting the effects of the Peso devaluation, with the same negative effects on the level of economic activity. In turn, a portion of the Argentine debt is adjusted by the Stabilization Coefficient (Coeficiente de Estabilización de Referencia, or CER Index), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the external debt and consequently in Argentina's financial obligations, which could further exacerbate the stress on the Argentine economy. A high inflation environment could also temporarily undermine our results of operations as a result of a lag in cost adjustments, and we may be unable to adjust our tariffs accordingly. In addition, a return to high inflation would undermine the confidence in Argentina's banking system in general, which would further limit the availability of domestic and international credit to businesses, which 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 to decline.

The credibility of several Argentine economic indices 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 several 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 and 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 that require the CPI for their own calculation, including the poverty index, the unemployment index as well as the calculation of the GDP, among others. 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. With credit to emerging market nations already tenuous as a result of the global economic crisis, our ability to access credit and capital markets to finance our operations and growth in the future could be further limited by the uncertainty relating to the accuracy of the economic indices in question which could adversely affect our results of operations and financial conditions and cause the market value of our ADSs and 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 National Government has not yet cancelled such debt. In late 2010, President Cristina Fernández de Kirchner announced a new round of negotiations with the Paris Club to cancel such debt, which then totaled approximately U.S. \$8.0 billion, without the intervention of the IMF. As of the date of this annual report, the Minister of Economy and Public Finance, Amado Boudou, is carrying out the related negotiations and the terms of a final agreement are not yet known. 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 firm, 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 taken any significant steps towards adopting 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. As a result of Argentina's default and the events that have followed it, the 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 conditions and cause the market value of our ADSs and common shares to decline.

Significant fluctuations in the value of the Peso against the U.S. Dollar may adversely affect the Argentine economy, which could, in turn adversely affect our results of operations

Despite the positive effects the depreciation of the Peso in 2002 had on the export-oriented sectors of the Argentine economy, the depreciation has also had a far-reaching negative impact on a range of businesses and on individuals' financial positions. 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 government's ability to honor its foreign debt obligations. If the Peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our businesses, our results of operations and the market value of our ADSs. Moreover, it would likely result in a decline in the value of our shares and ADSs as measured in U.S. Dollars.

Similarly, a substantial increase in the value of the Peso against the U.S. Dollar also presents risks for the Argentine economy, including, for example, a reduction in exports. This could have a negative effect on economic growth and employment and reduce the Argentine public sector's revenues by reducing tax collection in real terms, all of which could have a material adverse effect on our business and the market value of our ADSs as a result of the weakening of the Argentine economy in general.

Government measures to address social unrest may adversely affect the Argentine economy and thereby affect 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 could destabilize the country, both socially and politically, 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 new taxes were to be calculated at incremental rates as the price for the exported products increase, 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 these measures did not pass the Argentine Congress, we cannot make assurances that the Argentine government will not seek to reintroduce the export taxes or adopt other measures affecting this or other sectors of the economy (including the electricity sector) to compensate for the lost revenues associated with these taxes. These uncertainties could lead to further social unrest that could adversely affect the Argentine economy. In addition, economic distress may lead to lower demand for energy, lower collections from our clients, as well as growth of energy losses due to illegal use of our services. We may also experience increased damages to our networks as a result of protesters or illicit activity, which may increase as a result of the decline in economic conditions, all of which, in turn may have a material adverse effect on our financial condition and results of operations and the market value of our shares and ADSs.

Exchange controls and restrictions on transfers abroad and capital inflow restrictions have limited and can be expected to 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 the first half of 2002, Argentina experienced a massive withdrawal of deposits from the Argentine financial system in a short period of time, as depositors lost confidence in the Argentine government's ability to repay its foreign debt and maintain the Convertibility regime. This precipitated a liquidity crisis within the Argentine financial system, which prompted the Argentine government to impose exchange controls and restrictions on the ability of depositors to withdraw their deposits. These restrictions have been substantially eased, including those requiring the Central Bank's prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. However, 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 addition, the Argentine government adopted various rules and regulations in June 2005 that established new controls on capital inflows, requiring, among other things, that 30% of certain specified capital inflows (such as those destined for local money holdings and the acquisition of certain active or passive private sector financings) be deposited for one year in a non-assignable, non-interest bearing account in Argentina. See "Exchange Rates and Controls." 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 shares and 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 Argentine economy could be adversely affected by economic developments in other global markets

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into and securities from issuers 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 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 continues to be affected by events in the economies of its major regional partners, including, for example, currency devaluations caused by the global economic crisis.

Furthermore, the Argentine economy may be affected by events in developed economies which are trading partners or that impact the global economy. Economic conditions and credit availability in Argentina were affected by an economic and banking crisis originated in the United States in 2008 and 2009. When the crisis began, major financial institutions suffered considerable losses, investor confidence in the global financial system was shaken and various financial institutions required government bailouts or ceased operations altogether. Moreover, in recent years several European Union members have been obliged to reduce their public expenditures due to their high indebtedness rates, which has negatively impacted the Euro zone's economy.

After acknowledging difficulties to meet payment of its public debt, the accounts of Greece were put under the supervision of the European Union. Mainly due to fears of contagion and to the drastic decline in Greece's public debt ratings, the European Union, together with the International Monetary Fund, designed a plan of aid for Greece involving the supply of approximately 110 billion Euros. This contribution was granted based on the adjustment plan approved by the European Union for Greece, which included pay cuts for civil servants, pensions and retirement reductions, and significant increases in taxes. This led to widespread rioting in the streets. Spain, Portugal, Germany and the UK similarly have made adjustments in all areas to prevent further deterioration of their accounts. More recently, Ireland has adopted similar measures.

Notwithstanding these measures, it is unclear what consequences there would be in the global financial system if any of the major global financial institutions became insolvent, or what effects such a situation might have on the rest of the financial system. The current global economic condition may have significant long-term effects on Latin America and Argentina, mainly reflected in the lack of access to international credit, reduced demand for Argentine exports, and significant reductions in foreign direct investment.

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.

Risks Relating to the Argentine Electricity Sector***The Argentine government has intervened in the electricity sector in the past, and any further interventions may have a material adverse effect on our business and results of operations***

To address the Argentine economic crisis in 2001 and 2002, the Argentine government adopted a law that made a number of material changes to the regulatory framework applicable to the electricity sector (the Emergency Law). These changes, which severely affected electricity generation, distribution and transmission companies, included the freezing and "pesification" of tariffs, the revocation of adjustment and inflation indexation mechanisms, and the introduction of new price-setting mechanisms in the wholesale electricity market ("WEM") which had a significant impact on electricity generators and has led to significant price mismatches between market participants. 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 generation and distribution infrastructure (such as the Fondo de Inversiones Necesarias que Permitan Incrementar la Oferta de Energía Eléctrica en el Mercado Eléctrico Mayorista (Fund for Investments Required to Increase Electricity Supply in the Wholesale Electricity Market, or FONINVEMEM)) and imposing obligations on electricity companies to make certain investments in their respective areas. We cannot make assurances 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 shares and ADSs or that the Argentine government will not adopt emergency legislation similar to the 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 to decline.

Electricity distributors, generators and transmitters were adversely affected by the emergency measures adopted during the economic crisis of 2001 and 2002, many of which still remain in effect and have a severe negative impact on such businesses

Distribution and transmission tariffs include a regulated margin that is intended to cover the costs of distribution or transmission, as applicable, and provide an adequate return. Generators, which mostly depend on the sales made to the spot market (the market set by supply and demand of energy available for immediate delivery), used to have stable prices and were able to reinvest their profits to become more efficient and achieve better margins. Under the Convertibility regime, distribution and transmission tariffs and electricity spot prices were denominated in U.S. Dollars and distribution and transmission margins were adjusted periodically to reflect variations in U.S. inflation indexes. Pursuant to the Emergency Law, in January 2002 the Argentine government froze all distribution and transmission margins, revoked all margin adjustment provisions in distribution and transmission concessions, converted distribution and transmission tariffs into Pesos at a rate of Ps. 1.00 per U.S. \$1.00 and implemented price caps for sales of electricity to the spot market that in some cases were below costs of production. These measures, coupled with the effect of high inflation and the devaluation of the Peso, led to a decline in revenues in real terms and an increase of costs in real terms that could no longer be recovered through margin adjustments or market price-setting mechanisms. This situation, in turn, led companies in the sector to suspend payments on their financial debt (which continued to be denominated in U.S. Dollars), which effectively prevented these companies from obtaining further financing in the domestic or international credit markets. Although the Argentine government has recently granted temporary relief to certain companies in the electricity sector, including a temporary increase in transmission and distribution margins, the principal electricity companies are currently involved in discussions with the Argentine government on permanent measures needed to adapt the current regulatory framework to the current economic situation of the energy 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 our company by the policies adopted during the 2001 economic crisis and in its aftermath, including the negative impact on revenues created by the limitations we face in pricing as a result of the current tariff structure.

Electricity demand has grown significantly in recent periods and may be affected by recent or future tariff increases, which could lead electricity companies, such as us, to record lower revenues

During the 2001 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. Despite the decline in electricity demand registered in 2009, in the years following the economic crisis of 2001, electricity demand has experienced significant growth, increasing an estimated average of approximately 5.1% per annum from 2003 through 2010. This increase in demand reflects renewed economic growth in Argentina and the relative low cost, in real terms, of electricity to consumers due to the freeze of 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 recently granted temporary increases in transmission and distribution margins, and transmission and distribution companies are currently negotiating further increases and adjustments to their tariff schemes with the Argentine government. Although the recent increases in electricity transmission and 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 (including increases on tariffs for residential users) will not have a material adverse effect on electricity demand or a decline in collections from customers which, in turn, may lead electricity companies, such as us, to record lower revenues and results of operations than currently anticipated, and may have a material adverse effect on the market value of the ADSs.

Risks Relating to our Company

We operate a material portion of our business pursuant to public concessions granted by the Argentine government, the revocation or termination of which would have a material adverse effect on our business

We conduct our hydroelectric generation, transmission and distribution businesses pursuant to public concessions granted by the Argentine government. These concessions contain several requirements regarding the operation of those businesses and compliance with laws and regulations. Compliance with our obligations under our concessions is typically secured by a pledge of our shares in the concessionaires in favor of the Argentine government. Accordingly, upon the occurrence of specified events of default under these concessions, the Argentine government would be entitled to foreclose on its pledge of the concessionaire and sell our shares in that concessionaire to a third party. Such sale would have a severe negative impact on our ability to operate a material portion of our business, and as a result, our results of operations would be materially adversely affected. Finally, our concessions also generally provide for termination in the case of insolvency or bankruptcy of the concessionaire. If any of our concessions are terminated or if the Argentine government forecloses its pledge over the shares we own in any of our concessionaire companies, such companies could not continue to operate as a going concern, and in turn our consolidated results of operations would be materially adversely affected and the market value of our shares and ADSs could decline.

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

The majority of the employees in the electricity sector are affiliated with labor unions. As of December 31, 2010, approximately 71.6% of our employees were union members. Although our relations with unions are currently stable, we cannot assure you that our operating subsidiaries 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 current economic crisis. In addition, our collective bargaining agreements generally expire after a one-year term. We have completed salary negotiations for 2010, and due to inflationary pressures, we have reopened negotiations during the first months of 2011 at some of our subsidiaries. We cannot assure you that we will be able to negotiate new collective bargaining agreements on the same terms as those currently in effect, or that we will not be subject to strikes or work stoppages that could have material adverse effects on our operations and consequently on our financial results and the market value of our ADSs, before or during any negotiation process.

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

We carry insurance that is consistent with industry standards in each of our different business segments. See “Item 4. Information on the Company—Our Business—Insurance.” Although we believe our insurance coverage is commensurate with standards for the international electricity generation, transmission and distribution industry, no assurance can be given of the existence or sufficiency of risk coverage for any particular risk or loss. For example, two of the towers used by Transener’s transmission lines located in the Province of Buenos Aires, were damaged in 2008, from unknown causes. These damages resulted in the interruption of electricity transmission service to customers in the greater Buenos Aires region and certain areas in other provinces for several hours, which could have caused losses that may not be covered by our insurance policies, the total amount of which has not yet been determined. We cannot make any assurances that this kind of damage will not occur again in the future, which could eventually result in further losses or the imposition of sanctions on Transener by the regulatory authorities. If an accident or other event occurs that is not covered by our current insurance policies in any of our business segments, 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 shares and ADSs.

We conduct a portion of our operations through joint ventures, and our failure to continue such joint ventures or resolve any material disagreements with our partners could have a material adverse effect on the success of these operations

We conduct a portion of our operations through joint ventures and as a result, the continuation of such joint ventures is vital to our continued success. For example, we own a co-controlling interest in Citelec, the holding company of Transener, our transmission company, where we were previously a party to significant agreements with our former partner, Petrobras Energia S.A. (Petrobras Energia), with respect to the management of Transener. Electroingenieria S.A. (Electroingenieria) and Energia Argentina S.A. (Enarsa) subsequently acquired Petrobras Energia's interest in Citelec's capital stock. While we were able to enter into similar agreements that we enjoyed with Petrobras Energia, any significant disagreement with our new partners could have a material adverse effect on the success of such joint venture, and thereby our business and results of operations.

In addition, in the event that any of our partners were to decide to terminate its relationship with us in any of these companies or sell its interest in any of these companies, we may not be able to replace our partner or raise the necessary financing to purchase our partner's interest. In the case of Transener, in particular, we are not able to acquire our partners' interests under applicable Argentine regulations. See "Item 4. Information on the Company—The Argentine Electricity Sector." As a result, the failure to continue some of our joint ventures or to resolve disagreements with our partners could adversely affect our ability to transact the business that is the subject of such joint venture, which would in turn negatively affect our financial condition and results of operations and the market value of our shares and ADSs.

Risks Relating to our Generation Business

There are electricity transmission constraints in Argentina that may prevent us from recovering the full marginal cost of our electricity, which could materially adversely affect the financial results of our generation business

During certain times of the year, more electricity is generated than can be transmitted to the Buenos Aires node, also known as the Ezeiza node, which is the reference point for calculating the electricity load dispatch. Due to these electricity transmission constraints, many Argentine generators, including us, do not receive the full price of the system, but rather a lower local price. We cannot make any assurance that required investments will be made to increase the capacity of the system. As a result of lower electricity prices, our generation business may record lower operating profits than we anticipate, which could adversely affect our consolidated results of operations and financial condition and cause the market value of our ADSs to decline.

We may be unable to collect amounts due from CAMMESA and other customers in the electricity sector, which could have a material adverse effect on our financial condition and results of operations

Electricity generators, including our subsidiaries, are paid by Compañía Administradora del Mercado Mayorista Eléctrico S.A. (Electricity Market Administration Company, or CAMMESA), which collects revenue from other wholesale electricity market agents. Due to the recent economic crisis in Argentina, a significant number of wholesale electricity market agents defaulted in the payment of amounts they owed to the wholesale electricity market, which adversely affected the ability of CAMMESA to meet its payment obligations to generators. Additionally, the stabilization fund created by the Argentine Secretariat of Energy to cover the difference between the spot price and the seasonal price of electricity recorded a permanent deficit due to the constant difference between the spot price and the seasonal price. We cannot make any assurances that the difference between the spot price and the seasonal price will not increase in the future or that CAMMESA will be able to make payments to generators, both in respect of energy and capacity sold in the spot market. The inability of generators, including certain of our subsidiaries, to collect their credits from CAMMESA may have a material adverse effect on the revenues of our generation subsidiaries and accordingly, on our results of operations and financial condition and the market value of our shares and ADSs.

Our ability to generate electricity at our thermal generation plants depends on the availability of natural gas, and fluctuations in the supply or price of gas could materially adversely affect our results of operations

The supply or price of gas used in our generation businesses has been and may from time to time continue to be affected by, among other things, the availability of gas in Argentina, our ability to enter into contracts with local gas producers and gas transportation companies, the need to import a larger amount of gas at a higher price than the price applicable to domestic supply as a result of low domestic production, and gas redistribution mandated by the Argentine Secretariat of Energy, given the present shortage of supply. In addition, several of our generation facilities are equipped to run solely on gas and, in the event that gas becomes unavailable, these facilities will not be able to switch to other types of fuel in order to continue generating electricity. If we are unable to purchase gas at prices that are favorable to us, or if the supply of gas is reduced, our costs could increase or our ability to profitably operate our generation facilities could be impaired. Such a disruption to our generation business could in turn, materially adversely affect our results of operations and financial condition and the market value of our ADSs.

Our ability to generate electricity at our hydroelectric generation plants may be negatively affected by poor hydrological conditions, which could, in turn affect our results of operations

Prevailing hydrological conditions could adversely affect the operations of our two hydroelectric generation plants, HINISA and HIDISA, in a number of ways, not all of which we can predict. For example, hydrological conditions that result in a low supply of electricity in Argentina could cause, among other things, the implementation of broad electricity conservation programs, including mandatory reductions in electricity generation or consumption. Hydrological conditions in 2007, 2008, 2009 and 2010 were poor. In each of 2007, 2008, 2009 and 2010, the water intake at Nihules and Diamante available for electricity generation was 27%, 35%, 43% and 45% lower, respectively, as compared to 2006, the year in which our units recorded the greatest intake to date. A prolonged continuation of poor conditions could force the Argentine government to focus its generation efforts on the use of other sources of electricity generation. In the event of electricity shortages, the Argentine government could mandate the implementation of broad electricity conservation programs, including mandatory reductions in electricity generation or consumption; the government could also mandate increased production from thermal plants that use fossil fuels as their generation sources and preserve the available water resources for future electricity generation. Although such a shift in production could benefit our thermal generation plants, it would negatively affect our hydroelectric plants and any mandated reduction in electricity generation or consumption could reduce revenues in our generation business and lead to a decline in our consolidated results of operations, which may have a material adverse effect on our financial condition and the market value of our shares and ADSs.

Operational difficulties could limit our ability to generate electricity, which could adversely affect our results of operations

We may experience operational difficulties that could require us to temporarily suspend operations or otherwise affect our ability to generate electricity and, as a result, adversely impact our operating results. These difficulties may affect our generation equipment, electromechanical components or, in general, any of our assets required for the supply of electricity. For example, in December 2008, an inspection at one of the gas turbines of our subsidiary Central Térmica Loma de la Lata S.A. (Loma de la Lata) determined that a component of the turbine had broken off, causing minor damage to the surrounding equipment. Although our insurance policy covered the cost of repair of the broken turbine component, we were required to pay a deductible of U.S. \$500,000. In addition, our business interruption insurance did not cover the first forty-five days of lost profits due to delays caused by the malfunction. The repairs were completed and the unit became operational again on June 19, 2009. We cannot make any assurances that similar events will not occur in the future. While we maintain comprehensive insurance for each of our facilities, we cannot make any assurances that the amounts for which we are insured or the amounts that we may receive under such insurance policies would cover all of our losses. If operational difficulties impede our generation of electricity, the disruption may lead to reduced revenues from our generation segment, which would have an adverse effect on our consolidated results of operations and may negatively affect the market value of our shares or ADSs.

We would no longer own a controlling interest in HINISA, one of our principal generation assets, if the Province of Mendoza sells its participation in HINISA

Our subsidiary, Nihuales, currently owns a 52.4% controlling stake in HINISA, a hydroelectric generation company in the Province of Mendoza, Argentina, and the Province of Mendoza currently owns 47.6% of the capital stock of HINISA. In 2006, the Province of Mendoza publicly announced its intention to sell shares representing 37% of the capital stock of HINISA. See “Item 4. Information on the Company—Our Business—Our Generation Business—Nihuales and Diamante—Nihuales.” Pursuant to HINISA’s concession, if the Province of Mendoza sells these shares, Nihuales will be required to sell 20% of HINISA’s capital stock and would no longer own a controlling 52.4% interest in HINISA. In addition, according to HINISA’s by-laws, Nihuales would not be permitted to purchase any additional shares of HINISA.

We currently consolidate the results of operations of Nihuales. If Nihuales loses its controlling interest in HINISA, it may have a significant adverse effect on the value of our investment in Nihuales and on our consolidated results of operations and the market value of our ADSs. In addition, neither we nor Nihuales has any control over the timing of the Province of Mendoza’s proposed sale or the price at which Nihuales would be required to sell its 20% of HINISA’s shares. As a result, these shares may be sold at a time and price per share that are adverse to our interests and the return on our investment in Nihuales.

Piedra Buena could be exposed to third party claims on real property utilized for its operations that could result in the imposition of significant damages, for which we have not established a provision in our financial statements for potential losses

At the time of Piedra Buena’s privatization in 1997, the Province of Buenos Aires agreed to expropriate and transfer to Piedra Buena the real property on which the plant was built and to create administrative easements in favor of Piedra Buena over the third party lands through which a gas pipeline and an electricity transmission line run. Although the Province of Buenos Aires is in the process of expropriating the property on which the plant is built, as of the date of this annual report, it has not transferred all of the real property with clear and marketable title to Piedra Buena. In addition, the Province of Buenos Aires has not created the administrative easements for Piedra Buena’s gas pipeline or the electricity transmission line. In July 2008, Piedra Buena sued the Province of Buenos Aires seeking the creation of the administrative easements in favor of Piedra Buena. Piedra Buena has received several complaint letters from third parties seeking compensation for the use of this land. See “Item 8. Financial Information—Legal Proceedings—Generation—Legal proceedings involving Piedra Buena’s real estate.” If the Province does not complete the expropriation process or the administrative easement process, Piedra Buena may be exposed to judicial claims by third parties seeking compensation or damages for which we have not established a provision in our financial statements. If Piedra Buena were required to pay material damages or compensation for the right to use this real property as a result of adverse outcomes from legal proceedings, we could be required to use cash from operations to cover such costs, which could have a materially adverse effect on our financial condition and consolidated results of operations and cause the market value of our ADSs to decline.

Risks Relating to our Transmission Business

If we are not able to renegotiate our transmission tariffs on more favorable terms with the Argentine government in a timely fashion, it could have a material adverse impact on our financial condition and results of operations

In January 2002, pursuant to the Emergency Law, tariffs for the provision of public services, including the transmission of electricity, were converted from their original U.S. Dollar values to Pesos (at a rate of Ps. 1.00 per U.S. \$1.00) and frozen at those levels. Additionally, contract clauses in Transener’s and Transba S.A. (Transba)’s concession agreements requiring adjustments to their tariffs based on foreign inflation indexes and certain other indexation mechanisms were revoked. The Emergency Law also required the renegotiation of public service concession agreements. In connection with such renegotiation process, Transener and Transba entered into agreements with the Argentine government in 2005 that provided for an average tariff increase on fixed charges of 31% for Transener and 25% for Transba. Although these companies’ operating costs have significantly increased since 2005, the Ente Nacional Regulador de la Electricidad (Argentine National Electricity Regulator, or the ENRE) has not totally adjusted tariffs accordingly. On December 21, 2010, the ENRE and the Secretariat of Energy acknowledged Transener’s and Transba’s (see “Item 4. Information on the Company – Business Overview – Our Transmission Business”) right to collect amounts resulting from the variations of costs during the period June 2005 – November 2010, which payment would be based on CAMMESA’s availability of funds and such payments must be used for investments by us in the transmission system as instructed by the Secretariat of Energy. A mechanism for the calculation and payment of cost variations from December 1, 2010 to December 31, 2011 was also established. We cannot make any assurances that Transener and/ or Transba will receive the full amount recognized or that similar adjustments will be made in the future. If operating costs continue to increase and we do not receive any increase in revenues as a result of a tariff adjustment, our financial position and results of operations may be adversely affected, which could negatively impact the value of our shares or the ADSs.

Our transmission capacity may be disrupted, which could result in material penalties being imposed on us

Our electricity transmission business depends on Transener's and Transba's ability to transmit electricity over long distances through their transmission networks. Our financial condition and results of operations would be adversely affected if a natural disaster, accident or other disruption were to cause a material curtailment of our transmission capacity. Argentina's transmission system has evolved in a radial pattern which, unlike a fully integrated transmission grid system, connects areas of generation to areas of demand by a single transmission line or, in some cases, two or more transmission lines in parallel. Accordingly, the outage of any single line could totally disconnect entire sections of the Sistema de Interconexión Nacional (the National Interconnection System, or NIS). The concession agreements establish a system of penalties, which Transener and Transba may incur if defined parts of their networks are not available to transmit electricity. In May 2007, a fire in the Ezeiza transformer station resulted in a temporary disruption of the services provided by that station. In response to the service disruption, the ENRE filed charges against Transener alleging certain violations of the quality standards applicable to the transmission services provided by Transener that could result in the imposition of penalties if they are not successfully appealed. Consistent with industry standards, Transener and Transba do not maintain business interruption insurance and we cannot make assurances that any future disruption in Transener's or Transba's transmission capacity would not result in the imposition of material penalties, the payment of which would require us to use funds from operations and could have a material adverse effect on our financial condition and consolidated results of operations and cause the market value of our ADSs to decline.

The ENRE may reject our request to redetermine the revenues derived from expansion of the NIS as a result of the pesification of these revenues, which would result in a significant shortfall that could adversely affect our financial condition

The Emergency Law also affected the revenues we receive in connection with Transener's expansion of the NIS. In particular, the income from the construction, operation and maintenance of an approximately 1,300 km high-voltage electricity transmission line (500 kilovolts (kV)) from the Comahue region to the Ezeiza substation was converted into Pesos at a rate of Ps. 1.00 per U.S. \$1.00 and then adjusted for inflation. Transener has asked the ENRE, in its capacity as the main party to the construction, operation and maintenance agreement relating to Transener's construction of the transmission line, (which includes approximately 2,560 high voltage towers and the expansion of the Piedra del Águila, Choele Choel, Bahía Blanca, Olavarría and Abasto substations, which we refer to collectively as the Fourth Line), to redetermine such revenue. In December 2008, the ENRE approved the redetermination of our revenues and established that, as of October 2008, the income to be collected in connection with the Fourth Line is Ps. 75.9 million (plus taxes). However, because the ENRE has not developed an adjustment procedure, Transener has filed an administrative claim with the ENRE. We cannot predict when the ENRE will respond to our request. Notwithstanding the above, on March 30, 2011, the ENRE (Resolution 150/2011) approved a new value for the income to be collected in connection with the Fourth Line of Ps. 95.9 million (plus taxes), with effect from July 2010, and instructed CAMMESA to make the corresponding adjustments. On April 7, 2011, Transener filed a claim against Resolution No. 150/2011, as it did not include that the retroactive payment should be made in addition to late interest payments. No assurance can be made that Transener will be successful in its claim against Resolution No. 150/2011. If the ENRE fails to increase the revenues we receive under the Fourth Line contract on the terms requested, we could face significant losses on our investment in the construction of, and losses in the operation and maintenance of, such transmission line, which could have a material adverse effect on our overall financial condition and results of operations and cause the market value of our ADSs to decline.

Increasing competition in our non-regulated transmission activities could lead to lower revenues

We generate a material portion of our transmission revenues from non-regulated transmission activities, including the construction and installation of electrical assets and equipment, non-network line operation and maintenance, supervision of the expansion of the NIS, supervision of independent transmitters' operation and maintenance and other services. These non-regulated revenues represented 25.7% of Transener's revenues in 2010. We believe that these non-regulated revenues will continue to be an important part of our transmission business. Historically, Transener has not experienced significant competition in these areas of service (with the exception of its construction and international activities). However, we cannot make any assurance that competition will not substantially increase in the future or that such competition will not contribute directly to decreased revenues, which would adversely affect our financial condition and results of operations and cause the market value of our ADSs to decline.

Transener is highly leveraged, which could limit its financing options or even its ability to service its debt and consequently have an adverse effect on our results of operations

As of December 31, 2010, Transener's total consolidated indebtedness, denominated in U.S. Dollars and Pesos, amounted to the equivalent of approximately U.S. \$147.7 million (Ps. 587.1 million), including accrued but unpaid interest, penalties, post-default interest rate increases and the effect of the discount to net present value applied to its restructured debt under Argentine GAAP. Transener's leverage may impair its ability to service its indebtedness and obtain additional financing in the future, withstand competitive pressure and adverse economic conditions or take advantage of significant business opportunities that may arise, each of which could adversely affect our results of operations or growth prospects and cause the market value of our ADSs to decline.

Transener has not completed the legal transfer and registration of title of all of the properties transferred to it and Transba pursuant to the transmission concessions, which could result in potentially significant losses if any defect in title is later discovered

Under their concessions, Transener and Transba became the owners of a large number of properties, including land and buildings associated with the substations, transformers, and other installations previously owned by the predecessor owners of Transener and Transba. Transener is in the process of finalizing certain formalities to legally perfect the transfer of title to these properties to Transener and Transba. Transener and Transba have completed the legal transfer of, and Transener and Transba have registered title to, approximately 87% and 65%, respectively, of these properties as of December 31, 2010. Transener is taking steps to establish and/or record legal title to the remaining properties. Although the concessions contain representations by the predecessor owners of Transener and Transba that they possessed good and valid title to all such properties, if Transener discovers any defects in title during such process, Transener will be liable for any payments required to cure such defects because the predecessor owners no longer exist. We cannot make assurances that any such defect in title, or the costs associated with curing such defect, will not adversely affect our financial condition or results of operations or could cause the market value of our ADSs to decline.

Risks Relating to our Distribution Business***The failure to negotiate further improvements to our distribution tariff structure, including increases in our distribution margin, could have a material adverse effect on our distribution business and prospects***

We are currently engaged in a *Revisión Tarifaria Integral* (Integral Tariff Review, or Edenor RTI) with the ENRE to achieve a comprehensive revision of our distribution tariff structure, including further increases in our distribution margins and periodic adjustments based on changes in our distribution cost base, to provide us with an adequate return on our distribution asset base. Although we believe the Edenor RTI will result in a new tariff structure in the near future, we cannot make assurances that the Edenor RTI will conclude in a timely manner or at all, or that the new tariff structure will effectively cover all of our distribution costs and provide us with an adequate return. Moreover, the Edenor RTI could result in the adoption of an entirely new regulatory framework for our distribution business, with additional terms and restrictions on our distribution 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. If we are not successful in achieving a satisfactory renegotiation of our distribution tariff structure, our financial condition and results of operations may be materially adversely affected or could cause the market value of our ADSs to decline.

We may not be able to adjust our distribution tariffs to reflect increases in our distribution costs in a timely manner, or at all, which may have a material adverse effect on our financial condition and results of operations

In February 2006, Edenor entered into an agreement with the Argentine government relating to the adjustment and renegotiation of the terms of Edenor's concession (*Acta Acuerdo sobre la Adecuación del Contrato de Concesión del Servicio Público de Distribución y Comercialización de Energía Eléctrica*, or the Adjustment Agreement). The Adjustment Agreement contemplates a cost adjustment mechanism for the transition period during which the Edenor RTI is being conducted. This mechanism, known as the Cost Monitoring Mechanism, or CMM, requires the ENRE to review Edenor's actual distribution costs every six months (in May and November of each year) and adjust Edenor's distribution margins to reflect variations of 5% or more in Edenor's distribution cost base. Edenor may also request that the ENRE apply the CMM at any time that the variation in Edenor's distribution cost base is at least 10% or more. Any adjustments, however, are subject to the ENRE's assessment of variations in Edenor's costs, and we cannot guarantee that the ENRE will approve adjustments that are sufficient to cover Edenor's actual incremental costs. In addition, there likely will be a lag in time between when Edenor actually experiences increases in its distribution costs and when Edenor receives increased revenues following the corresponding adjustments, if any, to Edenor's distribution margins pursuant to the CMM. Despite the adjustment that Edenor was granted under the CMM in October 2007 and July 2008, we cannot make assurances that Edenor will receive similar adjustments in the future. As of the date of this annual report Edenor has requested seven increases under the CMM since May 2008, which are still being reviewed by the ENRE. Under the terms of the Adjustment Agreement, these seven increases should have been approved in May 2008, November 2008, May 2009, November 2009, May 2010, November 2010 and May 2011. If Edenor is not able to recover all of these incremental costs or there is a significant lag time between when Edenor incurs the incremental costs and when Edenor receives increased revenues, we may experience a decline in our results of operations, which may have a material adverse effect on our financial condition and the market value of our shares and ADSs.

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 Edenor 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 Edenor's 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 Edenor's 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 Edenor 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 Edenor as defendant. On January 27, 2009, the ENRE notified Edenor of a preliminary injunction, as a result of the Ombudsman's claim, pursuant to which Edenor was 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 Edenor 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 Edenor and the Argentine government seeking to annul certain retroactive tariff increases. In November 2010, the relevant court upheld the claim. Edenor 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 Edenor has 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 distribution 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 shares and 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 which, in turn, could limit the ability of these companies, including Edenor, to provide electricity to customers, and could lead to a decline in growth of such companies. Under Argentine law, distribution companies, such as Edenor, 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 could have a materially adverse effect on our financial condition and consolidated results of operations and cause the market value of our ADSs to decline.

Our distribution business has 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 our distribution business has 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 distribution business increased significantly, which we believe is mainly due to the economic and political environment in Argentina following the 2001 economic crisis. Although the Argentine government has agreed to forgive a significant portion of these accrued fines and penalties pursuant to the Adjustment Agreement and to allow Edenor 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, 2010, our accrued fines and penalties totaled Ps. 455.4 million (taking into account our adjustment to fines and penalties following the ratification of the Adjustment Agreement). If our distribution business fails to comply with any of these conditions, the Argentine government may seek to obtain payment of these fines and penalties. In addition, we cannot make any assurances that our distribution business will not incur material fines in the future, which could have a material adverse effect on our financial condition and results of operations and the market value of our shares and ADSs.

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

Our distribution concession does not permit our distribution business to pass through to our customers the cost of additional energy purchased to cover any energy losses that exceed the loss factor contemplated by the concession, which is, on average, 10%. As a result, if our distribution business experiences energy losses in excess of those contemplated by the concession, we may record lower operating profits than we anticipate. Prior to the 2001 economic crisis in Argentina, Edenor 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 the concession. However, during the 2001 economic crisis and during the years ended December 31, 2009 and 2010, Edenor's level of energy losses, particularly Edenor's 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 Edenor has 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. Energy losses in our distribution business amounted to 12.5% in 2010, 11.9% in 2009 and 10.8% in 2008. We cannot make any assurances that energy losses will not increase again in future periods, which may lead to lower margins in our distribution segment and could adversely affect our financial condition and consolidated results of operations and the market value of our shares and ADSs.

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

We outsourced a number of activities related to our distribution business to third party contractors in order to maintain a flexible cost base. We had approximately 2,682 third-party employees under contract in our distribution business as of December 31, 2010. Although we have very strict policies regarding compliance with labor and social security obligations by 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 in 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 the outsourcing of our distribution business it could have an adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

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

Although our distribution concession grants us the exclusive right to distribute electricity within our service area, this exclusivity may be terminated in whole or in part if technological changes make it possible for the energy distribution industry to evolve from its present condition as a natural monopoly into a competitive business. Although, to our knowledge, there are currently no projects to introduce new technologies in the medium or long-term which could reasonably be expected to alter the current landscape of the electricity distribution business, we cannot make assurances that future developments will not introduce competition that would adversely affect the exclusivity right granted by the 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 in our distribution segment, which could have a material adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

Edenor's acquisition of EMDERSA and AESEBA is subject to approval by the Argentine Antitrust Commission and by ENRE and Edenor may fail to realize the anticipated benefits of the acquisition, and the integration of these companies with our distribution operations may present significant challenges.

In March 2011, Edenor acquired EMDERSA and AESEBA and several related companies, which are now our subsidiaries. This acquisition is subject to approval by the Argentine Antitrust Commission and by ENRE. Although we have submitted all required documentation to the Argentine Antitrust Commission and to ENRE, we cannot assure you that the Argentine Antitrust Commission or ENRE will authorize the acquisitions and, therefore, the acquisitions may be revoked if any of the approvals are not granted.

Also, the success of these acquisitions will depend in part on our ability to realize the anticipated growth opportunities and cost savings from combining our existing distribution business with EMDERSA's and AESEBA's businesses. We may face significant challenges in consolidating these operations, integrating these organizations, and streamlining procedures in a timely and efficient manner while retaining key personnel from these companies. The integration of EMDERSA and 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 distribution segment's profitability. The integration of these businesses could also disrupt the operation of our current business and their existing businesses, or result in additional administrative procedures or regulatory oversight. It could also adversely affect Edenor's and their ability to maintain relationships with customers, suppliers, employees and others with whom Edenor may have business dealings. If we were to incur significant integration cost overruns or if the proposed integration would materially disrupt our existing distribution business this could have an adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

Risks Relating to our Shares and ADSs

Restrictions on the movement of capital out of Argentina may impair the ability of holders of ADSs to receive dividends and distributions on, and the proceeds of any sale of, the shares underlying the ADSs, which could affect the market value of 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 government to impose this kind 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 the ones which 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 the U.S. Dollars abroad. We cannot make assurances 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 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 shares and ADSs.

ADS holders' 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 corporate 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.

Holders of ADSs may be unable to exercise voting rights with respect to the common shares underlying the ADSs at our shareholders' meetings

Shares underlying the ADSs are held by the depositary in the name of the holder of the ADS. As such, we will not treat holders of ADSs as one of our shareholders and holders of ADSs will not have shareholder rights. The depositary will be the holder of the shares underlying the ADSs and holders may exercise voting rights with respect to the shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are no provisions under Argentine law or under our by-laws that limit the exercise by ADS holders of their voting rights through the depositary with respect to the underlying shares. However, there are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our shares will receive notice of shareholders' meetings through publication of a notice in an official gazette in Argentina, an Argentine newspaper of general circulation and the daily bulletin of the Buenos Aires Stock Exchange, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, do not receive notice directly from us. Instead, in accordance with the deposit agreement, we provide the notice to the depositary. If we ask it to do so, the depositary will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary as to voting the shares represented by their ADSs. Due to these procedural steps involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of shares and shares represented by ADSs may not be voted as the holders of ADSs desire. Shares represented by ADSs for which the depositary fails to receive timely voting instructions may, if requested by us, be voted at the corresponding meeting either in favor of the proposal of the board of directors or, in the absence of such a proposal, in accordance with the majority.

Our shareholders may be subject to liability for certain votes of their securities

Because we are a limited liability corporation, our shareholders are not liable for our obligations. Shareholders are generally liable only for the payment of the shares they subscribe. However, shareholders who have a conflict of interest with us and who do not abstain from voting at the respective shareholders' meeting may be liable for damages to us, but only if the transaction would not have been approved without such shareholders' votes. Furthermore, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to the law or our by-laws may be held jointly and severally liable for damages to us or to other third parties, including other shareholders.

Provisions of our by-laws could deter takeover attempts and have an adverse impact on the price of our shares and the ADSs

Our by-laws contain provisions that may discourage, delay or make more difficult a change in control of our Company or the removal of our directors, such as the rules that require any shareholder to present a tender offer as a result of the acquisition of a significant participation or the acquisition of a controlling interest in the event it purchases shares representing 35% or more than 50%, respectively, of our capital stock. These provisions, as well as other provisions of our charter and by-laws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interest of our shareholders and may adversely affect the market value of our shares and ADSs.

Item 4. Information on the Company**HISTORY AND DEVELOPMENT OF THE COMPANY**

We were incorporated as an Argentine limited liability corporation (*sociedad anónima*) on February 20, 1945 under the name Frigorífico La Pampa S.A. In 2003, we suspended our former business activities, which were limited to the ownership and operation of a cold storage warehouse building. In 2005, Messrs. Damián Mindlin, Gustavo Mariani and Ricardo Torres acquired a controlling stake in us. Following this acquisition, we changed our name to Pampa Holding S.A. As a result of the acquisitions we have made since 2006, we are currently the largest fully integrated electricity company in Argentina and, through our subsidiaries and co-controlled companies, we engage in the generation, transmission and distribution of electricity in Argentina. We changed our name again to Pampa Energía S.A. in September 2008.

We operate our electricity businesses in a highly regulated environment. Our hydroelectric generation activities and our transmission and distribution activities are subject to the terms of concessions granted by the Argentine government. In addition, our electricity prices and our transmission and distributions prices are subject to regulation by Federal and respective provincial governments. In addition, our electricity prices and our transmission and distribution prices are subject to regulation by the Argentine government, acting through the *Secretaría de Energía* (Secretariat of Energy) and the ENRE and, in connection with certain of our distribution businesses, to the relevant provincial authorities.

Pampa Energía S.A. is organized as a sociedad anónima under the laws of Argentina. Our principal executive offices are located at Ortiz de Ocampo 3302, Building #4, City of Buenos Aires, Argentina (C1425DSR). Our telephone number is + 54 11 4809 9500. Our website address is www.pampaenergia.com. None of the information available on our website or elsewhere will be deemed to be included or incorporated by reference into this annual report.

OUR BUSINESS**Overview**

We are the largest fully integrated electricity company in Argentina. Our generation subsidiaries had an aggregate installed generating capacity of approximately 2,000 MW as of December 31, 2010, representing 7.1% of the installed generating capacity in Argentina at such date, and generated a total of 5,943 net GWh of electricity during the year ended December 31, 2010, representing 5.1% of total electricity generated in Argentina during such period. We are also involved in different expansion projects to increase our generating capacity. We own an indirect co-controlling interest in Transener, which operates and maintains the largest high voltage electricity transmission system in Argentina, with more than 10,000 km of high voltage transmission lines that, as of December 31, 2010, represented approximately 95% of the high voltage system in Argentina, according to the information made available by CAMMESA. We believe that our subsidiary Edenor is the largest electricity distribution company in Argentina, in terms of number of customers and electricity sold (both in terms of GWh and Pesos) in 2010, based on publicly available figures released by electricity distribution companies in Argentina.

Our principal assets are divided among our electricity generation, transmission and distribution businesses, as follows:

- **Generation.** Our generation assets include:
 - HINISA and HIDISA, two hydroelectric power generation systems with an aggregate installed capacity of 653.6 MW located in the Province of Mendoza, which we acquired in October 2006;
 - Güemes, a thermal generation plant with an installed capacity of 361 MW located in the Province of Salta, which we acquired in January 2007;