

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, regulatory and political and financial conditions prevailing in Argentina, including growth, inflation rates, currency exchange rates, interest rates, and other local, regional and international events and conditions that may affect Argentina in any manner. For example, slower economic growth or economic recession could lead to a decreased demand for electricity in the service areas in which our subsidiaries operate or a decline in the purchasing power of our customers, which, in turn, could lead to a decrease in collection rates from our customers or increased energy losses due to illegal use of our services. Actions of the Argentine Government concerning the economy, including decisions with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had and could continue to have a material adverse effect on private sector entities, including us. For example, during the Argentine economic crisis of 2001, the Argentine Government froze electricity distribution margins and caused the pesification of our tariffs, which had a materially adverse effect on our business and financial condition and led us to suspend payments on our financial debt at the time. We cannot assure you that the Argentine Government will not adopt other policies that could adversely affect the Argentine economy or our business, financial condition or results of operations. In addition, we cannot assure you that future economic, regulatory, social and political developments in Argentina will not impair our businesses, financial condition, or results of operations or cause the market value of our ADSs 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 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 a significant slowdown in the Argentine economy in 2009, which started in the last quarter of 2008 and continued into much of 2009 (impacted by the largest global crisis in decades and negative domestic factors), the Argentine economy experienced a growth of about 0.9% and 9.2% during 2009 and 2010, respectively, according to official public estimates. Similarly, in the first semester of 2011, the Argentine economy registered a growth of 8.5%. However, uncertainty remains about the sustainability of this growth. Sustainable economic growth is dependent on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the Argentine Peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable rate of inflation.

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

- 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;
- fiscal surplus shows a steady decline, with risk of becoming a fiscal deficit in the near term;
- public debt payments have increased (in line with post-default payment terms) while international financing remains limited;
- inflation has accelerated recently and threatens to continue at levels that risk economic stability;
- the regulatory environment continues to be uncertain;
- the recovery has depended to some extent on high commodity prices which, despite having a favorable long-term trend, are volatile in the short-term and beyond the control of the Argentine Government; and
- the trade balance surplus (and the fiscal surplus, to a lesser extent) is largely dependant on the production of grains and soybeans, such that the risk to economic stability is magnified by the possibility of a new major drought affecting these crops (as was the case in 2008 and 2009).

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

Given that public finances are increasingly tight, the government has decided to revise the subsidy policies, particularly those related to energy, electricity and gas, water and public transportation. These new policies would not have an impact on companies' revenues but could affect the timing on the revision of the tariff process, generate a strong negative impact on economic activity and an increase in prices, because they occur in a context of capital flight, high interest rates and international global financial crisis.

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

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

Inflation has, in the past, materially undermined the Argentine economy and the Argentine Government's ability to create conditions that permit growth. According to data published by the *Instituto Nacional de Estadística y Censos* (National Statistics and Census Institute or INDEC), the rate of inflation reached 9.5% in 2011, 10.9% in 2010 and 7.7% in 2009. The Argentine Government has implemented programs to control inflation and monitor prices for essential goods and services, including price support arrangements agreed between the Argentine Government and private sector companies in several industries and markets.

A return to a high inflation environment would undermine Argentina's foreign competitiveness by diluting the effects of the Argentine Peso devaluation, negatively impact the level of economic activity and employment and undermine confidence in Argentina's banking system, which could further limit the availability of domestic and international credit to businesses. In turn, a portion of the Argentine debt is adjusted by the Coeficiente de Estabilización de Referencia (Stabilization Coefficient, or "CER"), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the Argentine external debt and consequently in Argentina's financial obligations, which could exacerbate the stress on the Argentine economy. A high inflation environment could also temporarily undermine our results of operations as a result of delay in our ability to, or our inability, to adjust our tariffs accordingly and could adversely affect our ability to finance the working capital needs of our businesses on favorable terms, and adversely affect our results of operations and cause the market value of our ADSs 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 certain key personnel at INDEC. The alleged governmental interference prompted complaints from the technical staff at INDEC, which, in turn, has led to the initiation of several judicial investigations involving members of the Argentine Government aimed at determining whether there was a breach of classified statistical information relating to the collection of data used in the calculation of the CPI. These events have affected the credibility of the CPI index published by INDEC, as well as other indexes published by INDEC the calculation of which are based on the CPI, including poverty rates, the unemployment rates and the calculation of the GDP, among others. As a result, the inflation rate of Argentina and the other rates calculated by INDEC could be higher than as indicated in official reports. The International Monetary Fund is currently providing technical assistance to the Argentine Government to improve the calculation and collection of inflation data. If these investigations result in a finding that the methodologies used to calculate the CPI or other INDEC indexes derived from the CPI were manipulated by the Argentine Government, or if it is determined that it is necessary to correct the CPI and the other INDEC indexes derived from the CPI as a result of the methodology used by INDEC, there could be a significant decrease in confidence in the Argentine economy. Given the limited credit available to emerging market nations as a result of the global economic crisis, our ability to access credit in the capital markets could be limited by the uncertainty relating to the inaccuracy of the economic indexes and rates in question which could adversely affect our results of operations and financial conditions and cause the market value of our ADSs and common shares to decline.

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

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

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

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

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

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

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

In April 2010, a Court of New York granted an attachment over reserves of the Argentine Central Bank in the United States requested by creditors of Argentina on the theory that the Central Bank was its alter ego. On July 2011, an appeals court reversed that ruling, stating that the assets of the Central Bank were protected by law. Plaintiffs have petitioned the United States Supreme Court to review the appeals court decision and, as of the date of this annual report, the United States Supreme Court has not ruled if it will hear the case. As a result of Argentina's default and the events that have followed it, the 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 Argentine Peso could adversely affect the Argentine economy, which could, in turn adversely affect our results of operations

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

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

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

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

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

Certain measures taken by the Argentine Government may adversely affect the Argentine economy and, as a result, our business and results of operations

On April 17, 2012 the Argentine Government sent a bill to Congress to expropriate 51% of the shares of YPF owned by the Spanish energy company, Repsol YPF, who currently controls most of the shares of YPF. Under the terms of the bill sent to Congress, out of the 51% of total shares to be expropriated, 51% of such shares will be held by the Argentine Government and the remaining 49% will be held by oil-producing Argentine Provinces. Also, the bill states that hydrocarbon activities (including, exploitation, industrialization, transportation and commercialization) in the territory of Argentina qualify as a "national public interest". The bill, entitled "Hydrocarbon Sovereignty of Argentina", provides that the primary objective is to achieve Argentina's self-sufficiency capacity in oil and gas supply. Additionally, pursuant to Decree 530/12 of the National Executive Power, the Argentine Government also ordered the intervention of YPF for 30 days and appointed Messrs. Julio de Vido as interventor of YPF. We cannot assure you that these or other measures that may be adopted by the Argentine Government will not have a material adverse effect in the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our shares and ADSs.

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

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

In the event of a future shock, such as the failure of one or more banks or a crisis in depositor confidence, the Argentine Government could impose further exchange controls or transfer restrictions and take other measures that could lead to renewed political and social tensions and undermine the Argentine Government's public finances, which could adversely affect Argentina's economy and prospects for economic growth, which, in turn, could adversely affect our business and results of operations and the market value of our 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 nationalization of Argentina's private pension funds caused an adverse effect in the Argentine capital markets and increased the Argentine Government's interest in certain stock exchange listed companies, such that the Argentine Government became a significant shareholder of such companies.

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

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

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

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

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

The realization of any or all of these risk factors, as well as events that may arise in the main regional partners, including members of Mercosur, could have a material adverse effect on the Argentine economy and, indirectly, on our business, financial condition and results of operations and the market value of our ADSs.

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

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

Risks Relating to the Argentine Electricity and Oil and Gas Sectors

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

To address the Argentine economic crisis in 2001 and 2002, the Argentine Government adopted the Public Emergency Law and other regulations, which made a number of material changes to the regulatory framework applicable to the electricity sector. These changes severely affected electricity generation, distribution and transmission companies and included the freezing of distributing nominal margins, the revocation of adjustment and inflation indexation mechanisms of tariffs, a limitation on electricity distribution companies from passing on to consumer increases in costs due to regulatory charges and a new price-setting mechanism in the wholesale electricity market ("WEM") which had a significant impact on electricity generators and generated substantial price differences within the market. The Argentine Government continues to intervene in this sector, including by granting temporary nominal 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 and mandating investments for the construction of new generation plants and the expansion of existing transmission and distribution networks.

Furthermore, on November 15, 2011, the Secretary of Energy issued Resolution 8752, which provided that any approval by the provincial governments of increases to the electricity tariffs applicable to end-users as of November 1, 2011 will trigger a proportionate decrease in the federal subsidy available to that end-user in connection with the purchase of electricity. Since the issuance of Resolution 8752, certain provincial governments have initiated legal proceedings to challenge the jurisdiction of the Secretary of Energy to issue Resolution 8752, particularly because of the potential chilling effect that this regulation may have on the ability of the provincial governments to increase electricity tariffs. These proceedings have not been resolved as of the date of this annual report.

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

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

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 calculated in U.S. Dollars and distribution and transmission margins were adjusted periodically to reflect variations in U.S. inflation indexes. In January 2002, pursuant to the Public Emergency Law, which authorized the Argentine Government to renegotiate its public utility contracts, provisions requiring price adjustments based on foreign inflation indexes and all other indexation mechanisms in public utility services agreements between the Argentine Government or any provincial government and the providers of those services (including us) were revoked, and the tariffs for the provision of such services were frozen and converted from their original U.S. Dollar values to Argentine Pesos at a rate of Ps.1.00 per U.S.\$1.00. These measures, coupled with the effect of high inflation and the devaluation of the Peso, led to a decline in revenues in real terms and an increase of costs in real terms, which could no longer be recovered through margin adjustments or market price-setting mechanisms. This situation, in turn, led many public utility companies to suspend payments on their financial debt (which continued to be denominated in U.S. Dollars despite the pesification of revenues), effectively preventing these companies from obtaining further financing in the domestic or international credit markets and making additional investments. Although the Argentine Government has recently granted temporary relief to 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 regulators on additional permanent measures needed to adapt the current tariff scheme to the post-crisis 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 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 may be affected by tariff increases, which could lead electricity companies, like us, to record lower revenues

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

If the demand for energy is increased suddenly, current levels of power generation and the difficulty in increasing the capacity of transmission and distribution companies in a short or medium term, could adversely affect the Company, which in turn could result in customer complaints and substantial fines imposed on such companies

In recent years, the increase in electricity demand was greater than the structural increase generation capacity, and transmission and distribution of electricity, which led, sometimes, to power shortages and disruptions. While current demand for electricity has decreased because of, among other things, a lower level of activity linked to the global economic crisis, a sustained increase in electricity demand could generate future shortages.

Additionally, according to Argentine law, distribution companies are responsible before their customers for any interruption in the supply of electricity. Consequently, customer can make their claims to the distribution companies. Also, distribution companies can suffer fines and penalties for interruptions caused by power outages, unless the respective Argentine authorities determine that power outages are caused by force majeure events. As of the date of this annual report, Argentine authorities have not ruled on the conditions under which outages may constitute a case of force majeure. In the past, however, Argentine authorities have adopted a restrictive view of the concept of force majeure and have acknowledged its existence in limited circumstances, such as internal defects in the customer's location or extraordinary weather events (such as severe storms, tornadoes or floods). We cannot assure that we will not experience a lack in the supply of energy that could adversely affect our business, financial condition and results of operations and cause the market value of our ADSs and shares to decline.

Oil and Gas Companies have recently been affected by certain measures taken by the Argentine Government and may be further affected by additional changes in their regulatory framework

Since December 2011, the Argentine Government has adopted a number of measures concerning repatriation of funds obtained as a result of exports of oil and gas and charges applicable to the production of liquid gas which have affected the business of oil and gas producers and manufacturers. Further changes in such regulations may increase the adverse effect of such measures on the business, revenues and operations of companies operating in the oil and gas sector, including companies in which we hold, or may hold in the future, equity interests, which may lead in turn to a material adverse effect on the market value of our ADSs.

Argentine oil and gas production concessions and exploration permits are subject to certain conditions and may not be renewed or could be revoked

The Hydrocarbons Law N° 17,319, the "Hydrocarbons Law" provides for oil and gas concessions to remain in effect for 25 years as from the date of their award, and further provides for the concession term to be extended for up to 10 additional years, subject to terms and conditions approved by the grantor at the time of the extension. The authority to extend the terms of current and new permits, concessions and contracts has been vested with the government of the province in which the relevant area is located (and the Argentine Government in respect of offshore areas beyond 12 nautical miles). In order to be eligible for the extension, any concessionaire and permit holder must have complied with its obligations under the Hydrocarbons Law and the terms of the particular concession or permit, including evidence of payment of taxes and royalties, the supply of the necessary technology, equipment and labor force and compliance with various environmental, investment and development obligations. Under the Hydrocarbons Law, non-compliance with these obligations and standards may also result in the imposition of fines and in the case of material breaches, following the expiration of applicable cure periods, the revocation of the concession or permit.

The Argentine Government and a number of provincial governments have recently revoked certain of YPF S.A.'s and Petrobras Argentina S.A.'s concessions. Petrolera Pampa has formed partnerships in projects with proved gas reserves to be developed by major oil and gas companies, such as Apache Energía Argentina S.R.L and Petrobras Argentina S.A. and is currently negotiating agreements that involve potential oil and gas production with Petrolera Pampa as operator. See "Item 4. Information on the Company—Our Business—Other Businesses—Petrolera Pampa—Petrolera Pampa's Projects". The termination or revocation of, or failure to obtain the extension of, a concession or permit under these projects could have a material adverse effect on Petrolera Pampa's business and results of operations.

On April 17, 2012 the Argentine Government sent a bill to Congress to expropriate 51% of the shares of YPF owned by the Spanish energy company, Repsol YPF, who currently controls most of the shares of YPF. Under the terms of the bill sent to Congress, out of the 51% of total shares to be expropriated, 51% of such shares will be held by the Argentine Government and the remaining 49% will be held by oil-producing Argentine Provinces. Also, the bill states that hydrocarbon activities (including, exploitation, industrialization, transportation and commercialization) in the territory of Argentina qualify as "national public interest". This bill, entitled "Hydrocarbon Sovereignty of Argentina", provides that the primary objective is to achieve Argentina's self-sufficiency capacity in oil and gas supply. Additionally, pursuant to Decree 530/12 of the National Executive Power, the Argentine Government also ordered the intervention of YPF for 30 days and appointed Messrs. Julio de Vido as interventor of YPF. We cannot assure you that these or other measures that may be adopted by the Argentine Government will not have a material adverse effect in the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our shares and 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 a significant part of our 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 an organized labor action, 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, 2011, 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 economic crisis. In addition, our collective bargaining agreements generally expire after a one-year term. We have completed salary negotiations for 2011, and due to inflationary pressures, we have reopened negotiations during the first months of 2012 in 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 before or during the negotiation process. If we are unable to negotiate salary agreements or if we are subject to strikes or work stoppages, our results of operations, financial condition and the market value of our ADSs could be materially adversely affected.

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. In the event that any of our partners were to decide to terminate its relationship with us in any of such joint ventures or sell its interest in such joint ventures, we may not be able to replace our partner or raise the necessary financing to purchase our partner's interest. 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 this particular case of Transener, 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.

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

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

The Argentine Antitrust Commission could not approve the implementation of the Restructuring Agreement

On May 17, 2011, the parties to the Restructuring Agreement, including the Company, entered into a Fourth Amendment to the Restructuring Agreement pursuant to which they agreed on the terms and conditions upon which the restructuring will be consummated. If the restructuring is achieved through the Restructuring Agreement's implementation, the Company and/or its subsidiaries (as financial creditor of CIESA) would obtain, on the one hand, direct and indirect ownership over 50% of CIESA's equity, which in turn would control 51% of TGS, and on the other hand, a direct 4.3% stake in TGS. The implementation of the restructuring has already been approved by the National Gas Regulatory Body, or ENARGAS, and is currently subject to the approval of Argentine Antitrust Commission (See "Presentation of Information - Recent Developments"). We cannot assure you that the Argentine Antitrust Commission will approve the Restructuring Agreement, and if it does not, it would adversely affect the financial position and results of operations of the Company.

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

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

The Company is obligated to adopt IFRS as from the fiscal year beginning on January 1, 2012. See “Item 3. Key Information – Selected Financial Data”. On April 7, 2010, the Company’s Board of Directors approved a specific implementation plan pursuant to the CNV’s General Resolution No. 562/09. The first annual and quarterly financial statements prepared by the Company pursuant to IFRS will be those corresponding to the year ended December 31, 2012 and the quarterly period ended March 31, 2012, respectively. As of the date of this annual report, the Company has reached certain preliminary conclusions regarding the principal impacts of the implementation of IFRS by the Company. The effects of the adoption of IFRS and the reconciliations between the Argentine GAAP and IFRS are included in Note 22 to the audited consolidated financial statements.

Risks Relating to 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. 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 economic crisis of Argentina in 2001 and 2002, 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. This difference is due to the intervention of the Argentine Government and the measures adopted pursuant to the Public Emergency Law. We cannot make any assurances that the difference between the spot price and the seasonal price will not increase in the future, that the Argentine Government will use funds from the National Treasury to meet the differences 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 in 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. Moreover, some of our generation units are included in the “Energía Plus” program, which requires the generator to assure the generation with its own fuels through the execution of firm natural gas and transport contracts. See “Electricity Prices – Energía Plus”.

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.

The failure to enforce the 2008-2011 Agreement could materially adversely affect our results of operations

The electricity capacity payment was fixed at Ps. 12 during the period between August 2002 and November 2010. In November 2010, the Secretariat of Energy and certain electricity generation companies executed an agreement for the management and operation of certain projects in order to achieve an increase in the availability of thermal electricity generation and the adjustment of the corresponding remuneration (the “Acuerdo para la Gestión y Operación de Proyectos, Aumento de disponibilidad de Generación Térmica y Adaptación de la Remuneración de la Generación 2008-2011”, hereinafter the “2008-2011 Agreement”). Such agreement had the purpose, among others, of establishing the overall remuneration to be received by certain electricity generators integrated to the WEM as capacity payment and increasing the recognized costs of maintenance and other costs excluding fuel costs.

As set forth in the abovementioned agreement, the price to be paid to the generators part to such agreement in concept of electricity capacity was increased to an amount that ranged between Ps. 30 and Ps. 42 per MW (during the hours in which the capacity is remunerated), according to the electricity generation technology applied by each generator.

On January 24, 2012, the Secretariat of Energy sent to CAMMESA Resolution N° 495 pursuant to which it instructed CAMMESA not to implement, until further instruction, the above referred provisions of the agreement. This instruction was rejected by PESA affiliates, which are a party to the 2008-2011 Agreement. In turn, the Secretariat of Energy confirmed the instruction issued by Resolution N° 495 through its Resolution N° 1269 (issued on March 7, 2012). Given that such instructions issued by the Secretariat of Energy constitutes a breach of the commitments undertaken by the Secretariat of Energy under the abovementioned agreement, the Company is in the process of analyzing possible courses of action, including, but not limited to, filing of administrative remedies in order to exhaust the administrative remedies (the “Reclamo Administrativo Previo”) and proceed to a judicial review (See Item 8. “Financial Information - Legal Proceedings”). We cannot assure you whether the Secretariat of Energy will comply with its obligations under the 2008-2011 Agreement or promote an amendment to it and, in such case, whether the new terms and conditions of the amendment would be favorable for the Company. In both cases, the Company’s results of operations could be adversely affected.

Our ability to generate electricity using gas plus under the Gas Plus Program at Loma de la Lata depends on the recognition by CAMMESA of Gas Plus costs

Loma de la Lata has executed several natural gas provision agreements with producers whose production is included under the terms of the “Gas Plus” program (Secretariat of Energy Resolution N° 24/08). Under such program, the producers are able to sell their production at a price higher than the reference price (market value). In virtue of the agreements executed between the Secretariat of Energy and Loma de la Lata and the mechanism established in Nota N° 7585/10 of the Secretariat of Energy (See “Item 4A. The Argentine Electricity Sector -Procedure for the Dispatch of Natural Gas for Power Generation”) CAMMESA recognizes such costs to Loma de la Lata. CAMMESA has to recognize the Gas Plus cost to Loma de la Lata in order for Loma de la Lata to be able to make the corresponding payments to its natural gas suppliers. If CAMMESA does not recognize the Gas Plus cost or if such recognition is delayed for a period of 60 days after the end of each month the ability of Loma de la Lata to pay the natural gas suppliers may be affected. Consequently, in such a situation, Loma de la Lata would have to renegotiate the terms and conditions previously agreed with its natural gas suppliers and, in case an agreement is not reached, any of the parties may terminate the contracts under which they committed to supply Loma de la Lata with natural gas. As a consequence of this, Loma de la Lata would need to search for alternative suppliers of natural gas, and if it is unsuccessful in reaching new agreements with natural gas suppliers, its ability to generate electricity using gas plus recognized under the Gas Plus Program could be affected.

A judgment of the Court of the International Chamber of Commerce against Loma de la Lata could adversely affect Loma de la Lata’ operations

Loma de la Lata is involved in an arbitration proceeding before an arbitration tribunal constituted according to the rules of the International Chamber of Commerce in connection with the Construction Agreement and the Supply Agreement. In addition to the claim for integral damages made by Loma de la Lata, the claim of the Project Counterparties is, among others, the refund of the sums received for the foreclosure of the guarantees issued by BBVA Banco Frances S.A. See “Item 8. Financial Information – Legal Proceedings – Legal Proceedings involving Loma de la Lata”. A judgment against Loma de la Lata by the Court of the International Chamber of Commerce could adversely affect the business, the results of operations and the financial position of Loma de la Lata.

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 six hydroelectric generation plants owned by 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 since 2006, the year in which our units recorded the greatest intake to date, have been poor. In particular, in 2011, the water intake at Los Nihuales and Diamante available for electricity generation was 55% and 62% lower, respectively, as compared to 2006. 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. We cannot make any assurances that events of such nature 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.

Piedra Buena could be subject to fines and penalties for not having a concession for the use of sea water for the refrigeration of its generation units

Piedra Buena uses sea water to refrigerate its generation units. According to applicable provincial law, such activity requires a concession to be granted by the provincial government. In the documentation that we received with the privatization of Central Piedra Buena, no concession was included. Piedra Buena consulted the regulatory authorities who informed that, according to their files, no such concession has been granted to Piedra Buena. The penalties for such infringement may vary from the application of up to a Ps. 50,000 fine to the closing of the plant. While Piedra Buena considers that the likelihood of being imposed any such penalties is low, we cannot assure you that the operation of Piedra Buena would not be affected if such penalties were to be imposed.

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 Public 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 Public 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.

As of December 31, 2011 Transener and Transba received only Ps. 85,000,000 in accordance to the Instrumental Agreements. Hence, and considering that such agreements expired on December 31, 2011, on March 6 and March 27, 2012, Transener and Transba submitted judicial claims in the federal courts in order to obtain the full compliance of the Instrumental Agreements.

We cannot make any assurances that Transener and/ or Transba will receive the full amount recognized on the Instrumental Agreements or that similar adjustments will be made in the future, according to the UNIREN ACT and/or the Instrumental Agreements. If operating costs continue to increase and we do not receive any increase in revenues as a result of a tariff adjustment because of the RTI and/or the full compliance of the Instrumental Agreements, 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 from a radial pattern to a fully integrated transmission grid system. However, there are areas where generation and demand are connected 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, including in cases of force majeure. 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 Public 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 Abasto 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 2,550 high voltage towers and the expansion of the Piedra del Aguila, Choel Choel, Bahia Blanca, Olavarria and Abasto substations, which we refer to collectively as the Fourth Line), to redetermine such revenue. In December 2008 (Resolution 653/08), 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 150/11) 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 formally requested clarifications as the new resolution failed to include retroactive interests. The response to this request is pending. On September 7, 2011, Transener asked the ENRE for a new determination of the Fourth Line's revenue related to the cost variation from July 2010 to July 2011 according to Resolutions 653/08 and 150/11 abovementioned. This request is also pending. 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 29.9% of Transener's revenues in 2011. 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, 2011, Transener's total consolidated indebtedness, denominated in U.S. Dollars and Pesos, amounted to the equivalent of approximately U.S. \$160.7 million (Ps. 665.4 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 67%, respectively, of these properties as of December 31, 2011. 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

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

The Adjustment Agreement currently 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 (the “CMM”), requires the ENRE to review Edenor’s actual distribution costs every six months (in May and November of each year) and to 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 the past, even when the ENRE has approved adjustments to Edenor’s tariffs, there has been a lag between when Edenor actually experiences increases in its distribution costs and when Edenor receives increased revenues following the corresponding adjustments 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 assure you that Edenor will receive similar adjustments in the future. As of the date of this annual report Edenor has requested eight increases under the CMM beginning in May 2008, which increases are still being reviewed by the ENRE. Under the terms of the Adjustment Agreement, these eight increases should have been approved in May 2008, November 2008, May 2009, November 2009, May 2010, November 2010, May 2011 and November 2011.

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

If Edenor is not able to recover all of these incremental costs contemplated by these increase requests pursuant to the CMM and all such future cost increases 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.

Failure or delay to negotiate further improvements to Edenor’s tariff structure, including increases in Edenor’s distribution margin, and/or to have the tariff adjusted to reflect increases in Edenor’s distribution costs in a timely manner, could have a material adverse effect on Edenor’s capacity to perform its financial and commercial obligations

Edenor is currently engaged in an Integral Tariff Review (Revisión Tarifaria Integral, or Edenor RTI) with the ENRE, as required by the agreement that Edenor entered into with the Argentine Government in February 2006 relating to the adjustment and renegotiation of the terms of the concession (as amended from time to time, the “Adjustment Agreement”).

The Adjustment Agreement currently contemplates a cost adjustment mechanism for the transition period during which the RTI is being conducted. This mechanism, known as the 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 the past, even when the ENRE has approved adjustments to Edenor’s tariffs, there has been a lag between when Edenor actually experiences increases in the distribution costs and when Edenor receives increased revenues following the corresponding adjustments to its distribution margins pursuant to the CMM. Despite the adjustment Edenor was granted under the CMM in October 2007 and July 2008, we cannot assure you that Edenor will receive similar adjustments in the future. As of the date of this annual report Edenor has requested eight increases under the CMM beginning in May 2008, which increases are still being reviewed by the ENRE. Under the terms of the Adjustment Agreement, these eight increases should have been approved in May 2008, November 2008, May 2009, November 2009, May 2010, November 2010, May 2011 and November 2011.

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

If Edenor is not able to recover all of the incremental costs contemplated by the increase requests pursuant to the CMM and all such future cost increases or there is a significant lag time between when Edenor incurs the incremental costs and when it receives increased revenues, and/or if Edenor is not successful in achieving a satisfactory renegotiation of the tariff structure, there is great uncertainty as to whether Edenor would be able to comply with its financial and commercial obligations, and Edenor may suffer liquidity shortfalls, which would have a material adverse effect on our business and consolidated results of operations, and the value of our ADSs and shares may decline. As a result, there is substantial doubt with respect to the ability of Edenor to continue as a going concern.

Edenor has prepared its annual financial statements for the fiscal year ended December 31, 2011 included herein, assuming that Edenor will continue as a going concern. However, Edenor's independent auditors, PriceWaterhouseCoopers, issued a report dated April 26, 2012 on its financial statements as of and for the years ended December 31, 2011 and 2010, which contains an explanatory paragraph expressing substantial doubt as to its ability to continue as a going concern. As discussed in Notes 7 and 20 to the financial statements, the delays in obtaining tariff increases, recognition of cost adjustments requested by Edenor in accordance with the terms of the Adjustment Agreement and the continuous increase in operating expenses have affected significantly the economic and financial position of Edenor and have raised substantial doubt with respect to its ability to continue as a going concern. Management's plans in response to these matters are also described in Note 20. However, Edenor's financial statements as of and for the year ended December 31, 2011 and 2010 do not include any adjustments or reclassifications that might result from the outcome of this uncertainty. See Item 18: "Financial Statements."

The goal of the RTI is to achieve a comprehensive revision of Edenor's tariff structure, including further increases in its distribution margins and periodic adjustments based on changes in Edenor's cost base, to provide Edenor with an adequate return on Edenor's asset base. Although we believe the RTI will result in a new tariff structure, we cannot assure you that the RTI will conclude in a timely manner or at all, or that the new tariff structure will effectively cover all of Edenor's costs or provide Edenor with an adequate return on its asset base. Moreover, the RTI could result in the adoption of an entirely new regulatory framework for Edenor's business, with additional terms and restrictions on Edenor's 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 Edenor's operations.

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

In November 2006, two Argentine consumer associations, *Asociación Civil por la Igualdad y la Justicia (ACIJ)* and *Consumidores Libres Cooperativa Limitada de Provisión de Servicios de Acción Comunitaria*, brought an action against 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 and 2002 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 assure you 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 and 2002 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 and 2002 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 assure you 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.

The Argentine Government could foreclose its pledge over Edenor's Class A shares under certain circumstances, which could have a material adverse effect on our business and financial condition

Pursuant to our distribution concession and the provisions of the Adjustment Agreement, the Argentine Government has the right to foreclose its pledge over Edenor's Class A common shares and sell these shares to a third party buyer if:

- the fines and penalties incurred in any given year exceed 20% of Edenor's gross energy sales, net of taxes (which corresponds to our energy sales);
- Edenor repeatedly and materially breaches the terms of our distribution concession and does not remedy these breaches upon the request of the ENRE;
- EASA, Edenor's controlling shareholder, creates any lien or encumbrance over Edenor's Class A common shares (other than the existing pledge in favor of the Argentine Government);
- Edenor or EASA obstruct the sale of Class A common shares at the end of any management period under our distribution concession;
- EASA fails to obtain the ENRE's approval in connection with the disposition of Edenor's Class A common shares;
- Edenor's shareholders amend its articles of incorporation or voting rights in a way that modifies the voting rights of the Class A common shares without the ENRE's approval; or

Edenor, or any existing shareholders or former shareholders of EASA who have brought a claim against the Argentine Government in the ICSID do not desist from its ICSID claims following completion of the RTI and the approval of a new tariff regime.

In 2011, the fines and penalties imposed on Edenor by the ENRE amounted to Ps. 78.0 million, which represented 3.4% of Edenor's energy sales.

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

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

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

We 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 outsource a number of activities related to our distribution business to third party contractors in order to maintain a flexible cost base. As of December 31, 2011, we had approximately 2,796 third-party employees under contract in our distribution business. 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 under certain circumstances. We cannot make any assurances that such proceedings will not be brought against us or that the outcome of such proceedings would be favorable to us. If we were to incur material labor liabilities in connection with the outsourcing of our distribution business, such liabilities could have an adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

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

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

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

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

Loss of exclusivity 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 electric energy within our service area, this exclusivity may be revoked in whole or in part if technological developments would make it possible for the energy distribution industry to evolve from its present condition as a natural monopoly into a competitive business. In no case does the complete or partial extinction of the zonal exclusivity give us the right to claim or to obtain reimbursement or indemnity for said circumstance. Although, to our knowledge, there are no current projects to introduce new technologies in the medium or long-term which might reasonably modify the composition of the electricity distribution business, we cannot assure you that future developments will not engender the incorporation of competition that adversely affects 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 and the subsequent divestiture of certain subsidiaries of EMDERSA are subject to approval by the Argentine Antitrust Commission and, in some cases, by the ENRE and Edenor may fail to realize the anticipated benefits of the acquisitions and divestitures, and the incorporation 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. Edenor has, since then, decided to divest certain subsidiaries of EMDERSA's business. These acquisitions and divestitures are subject to perfunctory formal approval by the Argentine Antitrust Commission and, in some cases, by the ENRE. Although we have submitted all required documentation to the Argentine Antitrust Commission and to the ENRE, we cannot assure you that the Argentine Antitrust Commission or the ENRE, as applicable, will authorize such acquisitions and, therefore, the acquisitions may be revoked or the divestitures may never be perfected if the relevant approvals are not granted.

In addition, the success of these acquisitions will depend in part on our ability to realize the anticipated growth opportunities and cost savings deriving from the combination of our existing distribution business and that of EMDERSA's and AESEBA's. 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 the acquired companies. The integration of the assets of EMDERSA that are not being divested by Edenor (See "Presentation of Information - Recent Developments") and of the assets of AESEBA will be costly, complex and time consuming and will require substantial management attention. These costs could be greater than we currently anticipate which could reduce our 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, EMDERSA's and AESEBA's 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 those that previously existed could, if reinstated, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of shares, as the case may be, from Pesos into U.S. Dollars and the remittance of such U.S. Dollars abroad. We cannot assure you that the Argentine Government will not take similar measures in the future. In such a case, the depositary for the ADSs may hold the Pesos it cannot otherwise convert for the account of the ADS holders who have not been paid. Nonetheless, the adoption by the Argentine Government of restrictions on the movement of capital out of Argentina may affect the ability of our foreign shareholders and holders of ADSs to obtain the full value of their shares and ADSs and may adversely affect the market value of our 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 with duration of 99 years, until June 30, 2044, 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. Our oil and gas business is also operated under a highly regulated environment and our upstream operations are subject to the terms of concession agreements with provincial governments and joint venture agreements with our partners. In addition, our electricity prices and our transmission and distributions tariffs are subject to regulation by Federal and respective provincial governments. In addition, our electricity prices and our transmission and distribution tariffs are subject to regulation by the Argentine Government, acting through the *Secretaría de Energía* (Secretariat of Energy) and the ENRE and, in relation with certain of our distribution businesses, to relevant provincial authorities.

Pampa Energía S.A. (in English Pampa Energy Inc.) 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 2,217 MW as of December 31, 2011, representing 7.5% of the installed generating capacity in Argentina at such date, and generated a total of 7,523 net GWh of electricity during the year ended December 31, 2011, representing 6.4% 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 17,700 km (including Transba) of high voltage transmission lines that, as of December 31, 2011, 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 2011, 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 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;