

Risks related to Argentina

Overview

We are a stock corporation (*sociedad anónima*) incorporated under the laws of the Republic of Argentina and all of our revenues are earned in Argentina and all of our operations, facilities, and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. For example, lower economic growth or economic recession could lead to lower demand for electricity in our concession area or a decline in purchasing power of our customers, which, in turn, could lead to lower collections from our clients or growth in energy losses due to illegal use of our service. Argentine government actions concerning the economy, including decisions with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had and could continue to have a material adverse effect on private sector entities, including us. To address Argentina's economic crisis in 2001 and 2002, for example, the Argentine government took measures, such as the freeze of electricity distribution margins and pesification of our tariffs, which had a severe effect on our financial condition and led us to suspend payments on our financial debt. In addition, on December 10, 2007, Cristina Fernández de Kirchner, wife of the ex-President Dr. Néstor Kirchner, was inaugurated as President of Argentina for a four-year term. The President of Argentina exercises significant authority over the policies and government actions that relate to the Argentine economy and, consequently, that affect the operations and income of Argentine companies such as ours. To date, the new government has continued the policies adopted by the administration of Dr. Kirchner. We cannot provide any assurance whether these policies will change or whether any new policies will be adopted that could adversely affect the economy or our business. In addition, we cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not impair our business, financial condition or results of operations.

Argentina's current growth and stability may not be sustainable

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Although the economy has recovered significantly over the past four years, uncertainty remains as to whether the current growth and relative stability is sustainable. Sustainable economic growth is dependent on a variety of factors, including international demand for Argentine exports, the stability and competitiveness of the Peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable and relatively low rate of inflation. As in the recent past, Argentina's economy may suffer if political and social pressures inhibit the implementation by the Argentine government of policies designed to maintain price stability, generate growth and enhance consumers and investor confidence. This, in turn, could lead to lower demand for our services, lower collections from our clients or growth in energy losses due to illegal use of our service, which could materially adversely affect our financial condition and results of operations. Furthermore, as it has done in the past, the Argentine government could respond to a lack of economic growth or stability by adopting measures that affect private sector enterprises such as the tariff restrictions imposed on public utility companies such as our own.

After several years of price stability under the Convertibility regime, which established a fixed exchange rate of one U.S. Dollar per one Peso, the formal devaluation of the Peso in January 2002 created pressures on the domestic prices system that generated high inflation in 2002, before substantially stabilizing in 2003. In 2002, the inflation rate (as measured by changes in the consumer price index, or CPI) reached 41.0% according to data published by the National Statistics and Census Institute (*Instituto Nacional de Estadísticas y Censos*, or INDEC). Despite a decline to 3.7% in 2003, the rate of inflation increased again to 6.1% in 2004 and to 12.3% in 2005, in each case according to data published by INDEC. In 2006, according to INDEC data, the rate of inflation decreased to 9.8%, in part due to several actions implemented by the Argentine government to control inflation and monitor prices for most relevant goods and services. Such government actions included price support arrangements agreed to by the Argentine government and private sector companies in several industries and markets. In 2007, the inflation rate was 8.5%. However, in spite of the decrease in inflation, uncertainty surrounding future inflation and the status of the price support agreements implemented in 2006 and 2007 could slow the rebound in the economy. In the past, inflation has materially undermined the Argentine economy and the government's ability to create conditions that permit growth. A return to a high inflation environment would also undermine Argentina's foreign competitiveness by diluting the effects of the Peso devaluation, with the same negative effects on the level of economic activity. A high inflation environment could also temporarily undermine our results of operations as a result of a lag in cost adjustments. An economic slowdown or recession could affect the purchasing power of our customers, which, in turn, could lead to lower demand for our services, lower collections from our clients or growth in energy losses due to illegal use of our service. In addition, a return to high inflation would undermine confidence in Argentina's banking system in general, which may limit the availability of domestic and international credit to businesses, which could adversely affect our ability to finance our working capital needs on favorable terms.

The methodology used to calculate the consumer price index (CPI), as published by the INDEC, has been questioned, as have been other indexes related to the CPI

In January 2007, INDEC modified its methodology used to calculate the 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. Several economists as well as the international and Argentine press have suggested that this change in methodology was related to the Argentine Government's policy aimed at curbing inflation. Further, at the time that INDEC adopted this change in methodology, the Argentine Government also replaced several key personnel at INDEC. The alleged governmental interference prompted complaints from the technical staff at INDEC, which, in turn, has led to the initiation of several judicial investigations involving members of the Argentine Government and aimed at determining whether there was a breach of classified statistical information relating to the collection of data used in the calculation of the CPI. These events have affected the credibility of the CPI index published by INDEC, as well as other indexes published by INDEC which require the CPI for their own calculation, including the poverty index, the unemployment index as well as the calculation of the GDP, among others. If these investigations result in a finding that the methodologies used to calculate the CPI or other INDEC indexes derived from the CPI were manipulated by the Argentine Government, or if it is determined that it is necessary to correct the CPI and the other INDEC indexes derived from the CPI, there could be a significant decrease in confidence in the Argentinean economy, which could, in turn, have a materially adverse effect on our ability to access international credit markets at market rates to finance our operations. In addition, because inflation is taken into account in determining our actual cost base and corresponding adjustments in our distribution margins, a change in the methodology used to calculate official inflation rates may adversely affect our ability to recover changes in our cost base attributable to actual inflation.

Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth

In the first half of 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 the restructuring, it had approximately U.S. \$126.6 billion in total outstanding debt remaining. Of this amount, approximately U.S. \$19.5 billion correspond to defaulted bonds owned by creditors who did not participate in the restructuring. Some bondholders in the United States, Italy and Germany have filed legal actions against Argentina, and holdout creditors may initiate new suits in the future. Additionally, foreign shareholders of several Argentine companies, including public utilities and a group of bond holders that did not participate in the sovereign restructuring, have filed claims in excess of U.S. \$17 billion before the International Center for the Settlement of Investment Disputes, or ICSID, alleging that certain government measures are inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties to which Argentina is a party. To date, the ICSID has rendered decisions in four of these cases, requiring the Argentine government to pay U.S. \$427.2 million plus interest in claims. Recently, a group of bond holders that declined to participate in the restructuring of the external public debt presented a claim before the ICSID for U.S. \$4.4 billion.

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 may result in material judgments against the Argentine government which, if not complied with, could prevent Argentina from obtaining credit from multilateral organizations and might result in attachment orders or injunctions relating to assets of Argentina that the government intended for other uses. As a result, the government may not have the financial resources necessary to implement reforms and foster economic growth, which, in turn, could lead to lower demand for our services, lower collections from our clients or growth in energy losses due to illegal use of service. 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.

Significant fluctuations in the value of the Peso against the U.S. Dollar may adversely affect the Argentine economy

Despite the positive effects the depreciation of the Peso in 2002 had on the export-oriented sectors of the Argentine economy, the depreciation has also had a far-reaching negative impact on a range of businesses and on individuals' financial position. The devaluation of the Peso had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, including public utilities, such as our company, and adversely affected the government's ability to honor its foreign debt obligations. If the Peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our business.

A substantial increase in the value of the Peso against the U.S. Dollar also presents risks for the Argentine economy. The appreciation of the Peso against the U.S. Dollar negatively impacts the financial condition of companies with foreign currency-denominated assets that exceed foreign currency-denominated liabilities. In addition, in the short term, a significant real appreciation of the Peso would adversely affect exports. This could have a negative effect on economic growth and employment and reduce the Argentine public sector's revenues by reducing tax collection in real terms.

Government measures to address social unrest may adversely affect the Argentine economy

During its crisis in 2001 and 2002, Argentina experienced social and political turmoil, including civil unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite Argentina's ongoing economic recovery and stabilization, the social and political tensions and high levels of poverty and unemployment continue. These conditions could adversely affect our relations with our employees, which could affect our operations and increase our energy losses and fines imposed by the ENRE. Future government policies to preempt or respond to social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts (including our concession), suspension of the enforcement of creditors' rights and shareholders' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws, regulations and policies affecting foreign trade and investment. These policies could adversely and materially affect the economy and our business. The policies adopted by the Argentine government to address Argentina's 2001 and 2002 economic crisis, for example, had a severe effect on our results of operations and financial condition and led us to suspend payments on our financial debt. See "Item 5. Operating and Financial Review and Prospects –Factors affecting our results of operations–Argentine economic conditions."

Further shocks to Argentina's financial sector could threaten the financial system and lead to renewed political and social tensions, adversely affecting the Argentine economy

In 2001 and the first half of 2002, Argentina experienced a massive withdrawal of deposits from the Argentine financial system in a short period of time, as depositors lost confidence in the Argentine government's ability to repay its foreign debt and maintain the Convertibility regime. This precipitated a liquidity crisis within the Argentine financial system, which prompted the Argentine government to impose exchange controls and restrictions on the ability of depositors to withdraw their deposits. 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.

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

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation of its currency in January 1999. In addition, Argentina continues to be affected by events in the economies of its major regional partners. Furthermore, the Argentine economy may be affected by events in developed economies which are trading partners or that impact the global economy. Shocks of a similar magnitude to the international markets in the future can be expected to affect adversely the Argentine economy and its financial system.

Risks relating to the electricity distribution sector

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

To address the Argentine economic crisis in 2001 and 2002, the Argentine government adopted the Public Emergency Law and other resolutions, which made a number of material changes to the regulatory framework applicable to the electricity sector. These changes, which severely affected electricity distribution companies, included the freezing of distribution margins, the revocation of adjustment and inflation indexation mechanisms and a limitation on charging our customers the increases of certain regulatory charges. In addition, a new price-setting mechanism was introduced in the wholesale electricity market, which had a significant impact on electricity generators and has led to significant price mismatches between participants in our market. The Argentine government continues to intervene in this sector, including granting temporary margin increases to distributors and creating specific charges to be transferred to trust funds managed by the government to 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. We cannot make assurances that these or other measures that may be adopted by the Argentine government will not have a material adverse effect on our business and operations or that the Argentine government will not adopt emergency legislation similar to the Public Emergency Law, or other similar resolutions, in the future.

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

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

During the 2001 Argentine 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. After the economic crisis, however, electricity demand has experienced significant growth, increasing an average of 6.4% per annum from 2003 through 2007. This increase in demand reflects renewed economic growth in Argentina and the relative low cost, in real terms, of electricity to consumers due to the initial freeze of distribution margins and the elimination of the inflation adjustment provisions in distribution concessions, coupled with the devaluation of the Peso and inflation. A significant increase in the cost of electricity to consumers could lead to lower growth in demand for electricity. Although we do not believe that the recent increases in electricity distribution margins will have a significant negative effect on demand, we cannot make assurances that any future increases in the relative cost of electricity to consumers will not have a material adverse effect on electricity demand in Argentina.

Energy shortages may act as a brake on growing demand for electricity and disrupt distribution companies' ability to deliver electricity to their customers, which could result in customer claims and material penalties imposed on these companies

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 could be required to ration supply in order to meet a national energy demand that exceeds the current generation capacity. In addition, the economic crisis and the resulting emergency measures had a material adverse effect on other energy sectors, including oil and gas companies, which has led to a significant reduction in natural gas supplies to generation companies that use this commodity in their generation activities. Moreover, the recent drought in the southern region of Argentina has led to a significant reduction in energy supply from hydroelectric plants that operate in this region and may cause several of these plants to cease supply to the national grid altogether. For these reasons, electricity generators may not be able to continue to meet the growing demand for electricity in Argentina in the short- to medium-term. In an attempt to address this situation, in September 2006 the Argentine government adopted measures requiring large industrial users to limit their energy consumption to their "base demand" (equal to their demand in 2005) and to secure any additional energy needs in excess of their base demand from sources other than the national grid. Large users that do not comply with these measures can be subject to penalties imposed by the Argentine government. These measures, however, have not led to a significant reduction in demand by these users, despite requests from, and penalties imposed by, the Argentine government. As a result, electricity generators may not be able to guarantee the supply of electricity to distribution companies, which, in turn, could prevent these companies, including our company, from experiencing continued growth in their businesses and could lead to failures to provide electricity to customers. Under Argentine law, distribution companies are responsible to their customers for any disruption in the supply of electricity. As a result, distribution companies may face customer claims and fines and penalties for disruptions caused by energy shortages unless the relevant Argentine authorities determine that energy shortages constitute force majeure. 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 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. We cannot make assurances that we will not experience a lack of energy supply that could adversely affect our business, financial condition and results of operations.

Risks relating to our business

Our business and prospects depend on our ability to negotiate further improvements to our tariff structure, including increases in our distribution margin

We are currently engaged in an integral tariff revision process (*Revisión Tarifaria Integral*, or RTI) with the ENRE. The goal of the RTI is to achieve a comprehensive revision of our tariff structure, including further increases in our distribution margins and periodic adjustments based on changes in our cost base, to provide us with an adequate return on our asset base. Although we believe the RTI will result in a new tariff structure, we cannot make assurances that the RTI will conclude in a timely manner or at all, or that the new tariff structure will effectively cover all of our costs and provide us with an adequate return on our asset base. Moreover, the RTI could result in the adoption of an entirely new regulatory framework for our business, with additional terms and restrictions on our operations and the imposition of mandatory investments. We also cannot predict whether a new regulatory framework will be implemented and what terms or restrictions could be imposed on our operations. If we are not successful in achieving a satisfactory renegotiation of our tariff structure, our business, financial condition and results of operations may be materially adversely affected and the value of our Class B common shares and ADSs may decline.

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

The Adjustment Agreement contemplates a cost adjustment mechanism for the transition period during which the RTI is being conducted. This mechanism, known as the Cost Monitoring Mechanism, or CMM, requires the ENRE to review our actual distribution costs every six months (in May and November of each year) and adjust our distribution margins to reflect variations of 5% or more in our distribution cost base. We may also request that the ENRE apply the CMM at any time that the variation in our distribution cost base is at least 10% or more. Any adjustments, however, are subject to the ENRE's assessment of variations in our costs, and we cannot guarantee that the ENRE will approve adjustments that are sufficient to cover our actual incremental costs. In addition, there likely will be a lag in time between when we actually experience increases in our distribution costs and when we receive increased revenues following the corresponding adjustments, if any, to our distribution margins pursuant to the CMM. Despite the recent adjustment we were granted under the CMM in October 2007, we cannot make assurances that we will receive similar adjustments in the future. If we are not able to recover all of these incremental costs or there is a significant lag time between when we incur the incremental costs and when we receive increased revenues, we may experience a decline in our results of operations, which may have a material adverse effect on the value of our ADSs and Class B common shares.

Proceedings challenging the renegotiation of our concession

In November 2006, two Argentine consumer associations, *Asociación Civil por la Igualdad y la Justicia* (ACIJ) and *Consumidores Libres Cooperativa Limitada de Provisión de Servicios de Acción Comunitaria*, brought an action against us and the Argentine government before a federal administrative court seeking to block the ratification of the Adjustment Agreement on the grounds that the approval mechanism was unconstitutional. On March 26, 2007, the federal administrative court dismissed these claims and ruled in our favor on the grounds that the adoption of Executive Decree No. 1957/06, which ratified the Adjustment Agreement, rendered this action moot. ACIJ appealed this decision on April 12, 2007, and the appeal was decided in our favor. However, on April 14, 2008, ACIJ filed another complaint challenging the procedures utilized by the Argentine Congress in approving the Adjustment Agreement. We cannot make assurances regarding how this latest complaint will be resolved nor can we make assurances that other actions or requests for injunctive relief will not be brought by these or other groups seeking to reverse the adjustments we have obtained or to block any further adjustments to our tariffs.

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

We operate in a highly regulated environment and have been and in the future may continue to be subject to significant fines and penalties by regulatory authorities, including for reasons outside our control, such as service disruptions attributable to problems at generation facilities or in the transmission network that result in a lack of electricity supply. After 2001, the amount of fines and penalties imposed on our company has increased significantly, which we believe is mainly due to the economic and political environment in Argentina following the recent economic crisis. Although the Argentine government has agreed to forgive a significant portion of our accrued fines and penalties pursuant to the Adjustment Agreement and to allow us to repay the remaining balance over time, this forgiveness and repayment plan is subject to a number of conditions, including compliance with quality of service standards, reporting obligations and required capital investments. As of December 31, 2007, our accrued fines and penalties totaled Ps. 281.4 million (taking into account our adjustment to fines and penalties following the ratification of the Adjustment Agreement). If we fail to comply with any of these requirements, the Argentine government may seek to obtain payment of these fines and penalties by our company. In addition, we cannot make assurances that we will not incur material fines in the future, which could have a material adverse effect on our results of operations.

Our financial difficulties led us to curtail our capital expenditures following the economic crisis and we may need to make further investments in our network to meet anticipated increases in energy demand

Due to the adverse effects of Argentina's economic crisis in 2001 and 2002, including the freezing of our distribution margins and the lack of available financing, we were forced to curtail our capital expenditures and make only those investments that were necessary to permit us to comply with our quality of service and safety and environmental requirements. Because energy demand has grown consistently in Argentina in recent years and is expected to continue to grow in the near future, we may increasingly experience service interruptions unless we are able to make further investments in our network to meet this growth in demand. We cannot make assurances that we will have the necessary resources or will be able to obtain financing on favorable terms to make these investments in a timely manner, or at all, which may in turn lead us to incur greater fines and penalties and adversely affect our results of operations.

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

Our concession does not allow us to pass through to our customers the cost of additional energy purchased to cover any energy losses that exceed the loss factor contemplated by our concession, which is, on average, 10%. As a result, if we experience energy losses in excess of those contemplated by our concession, we may record lower operating profits than we anticipate. Prior to the recent economic crisis, we had been able to reduce the high level of energy losses experienced at the time of the privatization to the levels contemplated (and reimbursed) under our concession. However, during the economic crisis, our level of energy losses, particularly our non-technical losses, started to grow again, in part as a result of the increase in poverty levels and, with it, the number of delinquent accounts and fraud. Although we have been able to reduce our energy losses again in recent periods, these losses continue to exceed the 10% average loss factor in our concession. Our energy losses amounted to 11.6% in 2007, 11.1% in 2006 and 11.0% in 2005. We cannot make assurances that our energy losses will not continue growing in future periods, which may lead us to have lower margins and could adversely affect our results of operations and financial condition.

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

Pursuant to our concession and the provisions of the Adjustment Agreement, the Argentine government will have the right to foreclose its pledge over our Class A shares and sell these shares to a third party buyer if:

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

In 2007, the fines and penalties imposed on us by the ENRE amounted to Ps. 23.9 million, which represented 1.2% of our energy sales (including the retroactive portion of the VAD increase). See "Item 4. Information on the Company—Our concession—Fines and penalties."

Pending the sale of our Class A shares following a foreclosure of its pledge, the Argentine government also has the right to exercise the voting rights of the Class A shares. In addition, the foreclosure by the Argentine government of the pledge on our Class A shares may be deemed to constitute a change of control under the terms of our restructured debt, which would require us to offer to repurchase all such debt at its nominal value. We cannot make assurances that we will have sufficient funds or access to financing to effect such repurchases. If the Argentine government forecloses its pledge over our Class A shares, the market value of our ADSs and Class B common shares could be significantly affected.

Our concession may be revoked if we are declared bankrupt, which would have a material adverse effect on our ability to operate as a going concern

In the event we are ever declared bankrupt by a competent court, the Argentine government has the right to revoke our concession or, alternatively, to seek authorization from the bankruptcy court to allow us to continue our operations. If we are declared bankrupt and the government decides that we should not continue rendering our distribution services, all of our assets will be transferred to a new state-owned company that will be sold in an international public bidding process. At the conclusion of this bidding process, the purchase price will be delivered to the bankruptcy court in favor of our creditors, net of any debt owed by us to the Argentine government and a specified percentage of the bidding price will be awarded as compensation in favor of the Argentine government. Any residual proceeds will be distributed among our shareholders. The revocation of our concession would have a material adverse effect on our ability to operate as a going concern, which in turn would materially and adversely affect the value of our ADSs and Class B common shares anyway.

We employ a largely unionized labor force and could be subject to an organized labor action

As of December 31, 2007, approximately 78% of our employees were union members. Although our relations with unions are currently stable, we cannot make assurances that we will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business and revenues, especially in light of the social tensions generated in Argentina by the economic crisis. In addition, our collective bargaining agreements with our unions expired at the end of 2007. Although we are currently negotiating new agreements, we cannot make assurances 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.

We might incur material labor liabilities in connection with our outsourcing

We have outsourced a number of activities related to our business to third party contractors in order to maintain a flexible cost base that allows us both to maintain a lower cost base and respond more quickly to changes in our market. We had approximately 3,612 third-party employees under contract with our company as of December 31, 2007. Although we have very strict policies regarding compliance with labor and social security obligations by our contractors, we are not in a position to ensure that contractors' employees will not initiate legal actions to seek indemnification from us based upon a number of judicial rulings issued by labor courts in Argentina recognizing joint and several liability between the contractor and the entity to which it is supplying services under certain circumstances. If we are not able to prevail in any of these proceedings, we might be forced to incur material labor liabilities, which may have an adverse effect on our results of operations.

We currently are not able to effectively hedge our currency risk 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 all 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, but we continue to have substantial exposure to the U.S. Dollar. We cannot make assurances 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 hedging transactions to cover all or a part of our remaining exposure, we have not been able to enter into these transactions 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.

Our insurance may not be sufficient to cover certain losses

As of December 31, 2007, our physical assets are insured for up to U.S. \$417.5 million. However, we do not carry insurance coverage for losses caused by our network or business interruption, including loss of our concession. Although we believe that our insurance coverage is commensurate with standards for the international electricity distribution industry, no assurance can be given of the existence or sufficiency of risk coverage for any particular risk or loss. If an accident or other event occurs that is not covered by our current insurance policies, we may experience material losses or have to disburse significant amounts from our own funds, which may have a material adverse effect on our results of operations and financial condition.

A substantial number of our assets are not subject to attachment or foreclosure

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

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

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

Our exclusive right to distribute electricity may be adversely affected by technological or other changes in the energy distribution industry

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

Risks relating to ADSs and our Class B common shares

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

The Argentine government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the 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, restrictions on the movement of capital to and from Argentina such as the ones which previously existed could, if reinstated, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of Class B common shares, as the case may be, from Pesos into U.S. Dollars and the remittance of the U.S. Dollars abroad. We cannot make assurances that the Argentine government will not take similar measures in the future. In such a case, the depository for the ADSs may hold the Pesos it cannot convert for the account of the ADR holders who have not been paid.

Our ability to pay dividends is limited

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, as set forth in our audited financial statements prepared in accordance with Argentine GAAP. Our ability to pay dividends, however, is restricted pursuant to the indenture we entered into when we restructured our financial debt. Pursuant to this indenture, we may not pay any dividends prior to April 24, 2008 and, thereafter, our ability to pay dividends is limited at any time that our leverage ratio, as defined in the indenture, exceeds 2.5, unless we attain an international investment grade rating on our long term debt from an internationally recognized rating agency. Our leverage ratio is defined in the indenture as our total indebtedness (without giving effect to the discount to net present value applied to our restructured debt) over EBITDA, as defined in the indenture. EBITDA is defined in the indenture as our operating income plus amortization of intangible assets and non-current assets, depreciation of fixed assets and any other non-cash charges. If our leverage ratio is greater than 2.5, we will only be able to pay dividends using a specified portion of our excess cash (as defined in the indenture), which ranges from 25% to 50% of our excess cash depending on our leverage ratio. In addition, if our leverage ratio exceeds 3.5 we will not be able to pay any dividends to our shareholders. We cannot make assurances that we will be able to generate excess cash under the indenture at any time or that our leverage ratio will allow us to pay dividends at any given time. In addition, pursuant to the Adjustment Agreement, we have agreed not to pay dividends without the ENRE's prior approval until we complete the integral tariff review process with the ENRE, which we expect to occur in 2008, although we cannot make assurances that the process will be completed by then.

Our shareholders' ability to receive cash dividends may be limited

Our shareholders' ability to receive cash dividends may be limited by the ability of the depository to convert cash dividends paid in Pesos into U.S. Dollars. Under the terms of our deposit agreement with the depository for the ADSs, the depository 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 depository to distribute the foreign currency only to those ADR holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depository 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 ADRs at a potential disadvantage.