



Central Puerto

Central Puerto SA

Q3 2019 Earnings Conference Call

Tuesday, November 12, 2019, 12:00 P.M.
Eastern

CORPORATE PARTICIPANTS

Jorge Rauber – *Chief Executive Officer and Vice Chairman of the Board*

Fernando Bonnet – *Chief Financial Officer*

Milagros Grande – *Financial Manager*

Tomás Daghlian – *Investor Relations Officer*

PRESENTATION

Operator

Good morning, and welcome to the Central Puerto Conference Call following the results announcement for the quarter ended on September 30, 2019. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0).

After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded. If you do not have a copy of the press release, please refer to the Investor Support section on the company's corporate website at www.centralpuerto.com. A replay of today's call may be accessed by accessing the webcast in the Investor Support section of the Central Puerto corporate website.

Before we proceed, please note that certain statements made by the company during this conference call are forward-looking statements, and we refer you to the forward-looking statements section of our earnings release and recent filings with the SEC. Central Puerto assumes no obligation to update forward-looking statements, except as required under applicable security laws.

In addition, all financial figures were prepared in accordance with IFRS and are stated in Argentinian pesos, unless otherwise noted. Please be aware that some of the numbers mentioned during the call may be rounded in order to simplify the discussion.

On the call today from Central Puerto is Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Financial Officer; Milagros Grande, Financial Manager; and Tomás Daghlian, Investor Relations Officer.

And now I will turn the conference over to Jorge Rauber. Mr. Rauber, you may begin.

Jorge Rauber

Thank you. We are joining you today with our management team from Buenos Aires, Argentina, to report on the results of the third quarter 2019 and to answer any questions you may have.

As you may know, following the presidential election of October 27, the new administration would take office on December 10. We will keep you informed of any relevant policy changes that may be implemented.

That said, I will refer first to the operating figures of the quarter, and then continue with some recent news regarding Central Puerto. Finally, Fernando will analyze the financial results of the quarter.

During the period, our equipment continued to show an excellent track in terms of reliability as the availability of our thermal units remained high at 94%, a similar level to the one obtained during the same quarter of 2018. This figure is 9 percentage points above the average availability of thermal units for the total market showing Central Puerto's competitive advantage.

Regarding energy generation, during the third quarter, we generated 3.9 terawatt hours of electricity, 21% higher than the second quarter of 2018 and 11% lower than the third

quarter of 2018. This decrease was, first, due to the less water inflow from the Limay River and Collón Curá River, which decreased 6% the generation from our hydro plant, Piedra del Águila; and second, due to the fact that the energy generation from our thermal unit decreased 18% because of the scheduled maintenance during September of the steam turbine number 6 of the Puerto Complex, which implies a reduction of 119 gigawatt hours during that month and a lower dispatch of some of our smaller steam turbines.

An additional factor is the introduction of new renewable energy plants and efficient plants, including some of the ones that Central Puerto has and will be building.

As a matter of fact, we are proud to announce that we have increased our renewable energy generation more than 230% during the third quarter as compared to the same period of 2018.

During the quarter, La Castellana I and Achiras I wind farms, which started operations during August and September 2018, respectively, were fully operational and generated 155 gigawatt hours. Additionally, during the third quarter of 2019, the wind farms La Castellana II and La Genoveva II began commercial operation, adding 56 megawatts to our renewable energy portfolio and generating 32 gigawatt hours during the first weeks of operation to supply large users under the Term Market regulatory framework, MATER.

We expect our production to grow in the coming quarters as we continue to execute our aggressive expansion plan. For example, we are pleased to announce that the new Luján de Cuyo cogeneration unit started operation on October 5, seven weeks before the schedule agreed with CAMMESA, adding 95-megawatt to our installed capacity. As any generation unit, this machine is among the most efficient of the system, with almost full dispatch during the whole year.

We have good advantage in our Terminal 6 San Lorenzo Project too, our other cogeneration unit. This unit will add 330 megawatt or around 8% to our current installed capacity and more importantly, will provide electricity energy and steam with high efficiency for our customers.

Finally, during the quarter, we continue with the construction of wind farms La Genoveva I, which will sell electricity under the RenovAr 2 program, and Manque and Los Olivos, which will sell electricity under the MATER framework. As of the date of this report, these last two projects have already signed long-term power purchase agreements with private customer for 100 and 87% of their mean estimated electricity generation, respectively. These are long-term bilateral contracts entered into directly with our customers with prices set in U.S. dollars.

Additionally, we continue with the collection of the monthly installments of the CVO agreement as scheduled. During July, we collected ARS 825 million, including value-added tax, related to the installment one to ten of the CVO agreement.

Finally, during the quarter, CAMMESA made a general offer to all generators to cancel all the pending credit receivables accrued between 2013 and 2016, which excludes the FONI and similar programs' trade receivables, after offsetting the balance of all loans and advance granted by them. This agreement included an 18% reduction of the amount principal plus accrued interest that CAMMESA owed to us. As a consequence of this transaction, the company collected ARS 1.6 billion, including the associated value-added

tax. And now I will turn the call over to Fernando, who will comment on the financial highlights of the quarter.

Fernando Bonnet

Thank you, Jorge. Before starting, it is worth noting that the financial statement as of and for the quarter ended on September 30, 2019, include the effect of inflation adjustment, applying the International Accounting Standards number 29. Accordingly, the financial figures that I will mention have been stated in terms of Argentine pesos of the end of the reporting period, including the data from previous periods and the growth comparisons here mentioned. Consequently, the comparative information included in the financial statements for the quarter ended in September 30, 2019, is not comparable to the financial statement previously published by us.

The results for our operations during the third quarter of 2019 were in line with our expectations. Revenues from continuing operations increased 37% to ARS 7.8 billion in the third quarter compared to ARS 5.7 billion during the third quarter of 2018, mainly driven by an increase in sales under contracts, which amounts to ARS 2.5 billion during the third quarter of 2019 as compared to ARS 300 million in the third quarter of 2018, mainly due to revenues related to Brigadier López plant acquired in June 2019 and the energy generation from the wind farms, Achiras and La Castellana I, during the full quarter and La Castellana II and La Genoveva II, which started operations during June and September 2019, respectively.

And the increase in revenues was partially offset by a decrease in sales under Energía Base regulatory framework, which total ARS 5 billion during the third quarter of 2019 as compared to ARS 5.1 billion in the third quarter of 2018. The decrease was due to a decrease in energy generated of 11%, as Jorge mentioned before, which has negative impact of ARS 260 million, and a decrease of ARS 1 billion, due to a lower energy and power price for units under Energía Base regulatory framework established by Resolution 1, starting on March 2019, and a lower than inflation increase in the exchange rate for the third quarter of 2019, which impacted tariffs set in U.S. dollars in terms of Argentinian pesos current at the end of the reporting period.

As a reference, the average foreign exchange rate during the third quarter increased 40% compared to the same period of 2018, while the inflation rate for the 12-month period ended on September 30, 2019, was 54%. This decrease in Energía Base was partially offset by an increase associated to a self-supplied fuel, which amounted to ARS 1.4 billion during the third quarter 2019 compared to ARS 280 million during the third quarter of 2018.

Our gross profit margin in the quarter increased 36%. This increase was due to above-mentioned revenues and was partially offset by an increase of the cost of sales, total ARS 3.2 billion compared to ARS 2.3 billion in the third quarter of 2018. The increase in cost of sales was primarily driven by: first, an increase in the use of our self-supplied fuel used for the production of steam or to replace the fuel provided by CAMMESA for the units under Energía Base, which totaled ARS 1.2 billion during the third quarter of 2019 as compared to ARS 500 million in the third quarter 2018; and second, a 13% increase in nonfuel-related cost of production, which totaled ARS 2 billion in the third quarter 2019 as compared to ARS 1.7 billion in the third quarter of 2018, mainly related to the operation of Brigadier López plant acquired in the second quarter this year.

Operating income before operating results net increased 36% to ARS 4 billion compared to ARS 2.9 billion in the third quarter of 2019. This increase was due to the above-mentioned increase in gross profit and an approximately proportional increase in administrative and selling expenses totaled ARS 592 million, a 37% increase as compared to ARS 431 million in the third quarter of 2018.

Our adjusted EBITDA was around ARS 14.1 billion in the third quarter of 2019, which includes ARS 6.8 billion increase in interest and foreign exchange difference associated with the FONINVEMEM and similar programs trade receivables, which are denominated in U.S. dollars. Without considering this effect, our adjusted EBITDA during the third quarter of 2019 was ARS 7.3 billion, an increase of 97% as compared to ARS 3.7 billion obtained in the same period of 2018 for the same metrics. This increase was mainly driven by the increase in gross profit mentioned above and ARS 3.5 billion, a onetime gain in interest related to CAMMESA's trade receivables collection that Jorge mentioned before. This was partially offset by ARS 616 million in non-cash charge related to property and plant valuation at fair value.

The consolidated net income was ARS 3.5 billion compared to ARS 5.4 billion in the third quarter of 2018, will result in a gain of ARS 27.7 per ADR. In addition to the above-mentioned factors, net income was negatively impacted by the higher financial expenses, net of financial income, that amount ARS 8.8 billion in the third quarter of 2019 compared to ARS 3.9 billion in the same period of 2018, mainly due to the interest and foreign exchange difference accrued on the higher net debt position during the period related to loans obtained for the thermal and renewable energy expansion projects and the acquisition of Brigadier López power plant, most of which are denominated in U.S. dollars. And finally, we had a gain on net monetary position of ARS 700 million during the quarter as compared to a loss of ARS 1.3 billion in the third quarter of 2018.

Thank you, and now we invite you to ask any questions to our team.

QUESTIONS AND ANSWERS

Operator

We will now begin question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*), then two (2).

At this time, we will pause momentarily to assemble our roster.

The first question comes from Frank McGann with Bank of America. Please go ahead.

Frank McGann

Okay. Thank you very much. I was just wondering if you could maybe provide a little perspective on how you are seeing your relative position in terms of – I am thinking more in terms of new investments going forward. What -- obviously, the market is very difficult, and we have a lot of pricing issue, but in terms of the competitiveness of the overall market and the need for new investments potentially over time to improve efficiencies in the system, I was wondering how you see yourselves positioned going forward to add additional capacity? And when that might be necessary, because, obviously, the market is well supplied currently?

Jorge Rauber

Okay. Thanks Frank, for your question. What I think is that the most important thing today is to be cautious. I mean, this is what we are doing today in order to see what the new government will do with all our investment. In the short term, what we are doing is, we continue with the projects that are advanced, under construction. Terminal 6 will be an example of that case. On the other hand, we have Brigadier López, which is supposed to be closed as combined cycle. There we are waiting for the closing of a financial agreement we have for the project and seeing what the government will -- I mean, what kind of change, if any, the government -- the new government, will do with the contracts. And this is all I see. I mean, the current market situation with regard to market is so that we do not see an urgent need for new capacity in the short term, and it depends on the rules of the new market and new rules that the government, the new government, will put in place to see which will be our, I mean, do on that for the future.

Frank McGann

Okay. Thank you very much.

Jorge Rauber

You are welcome.

Operator

Again, if you have a question, please press star (*), then one (1).

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Rauber for any closing remarks.

CONCLUSION**Jorge Rauber**

Okay. Thank you to everyone for your interest in Central Puerto. We encourage you to call us at any time for any information you may need. Thank you and have a good afternoon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.