

Central Puerto

Q1 2019 Earnings Conference Call

Tuesday, May 14, 2019, 1:00 P.M. Eastern

CORPORATE PARTICIPANTS

Jorge Rauber – *Chief Executive officer*

Tomás Daghlian – *Investor Relations Officer*

PRESENTATION

Operator

Good afternoon, good morning, and welcome to the Central Puerto Conference Call following the results announcement for the Quarter Ended on March 31, 2019. All participants will be in a 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 also note today's 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 securities laws. In addition, all financial figures were prepared in accordance with the IFRS and are stated in the Argentinean pesos unless otherwise noted.

On the call today from Central Puerto is the Jorge Rauber, Chief Executive Officer and Tomás Daghlian, Investor Relations Officer. And now, I will turn the call over to Jorge Rauber. Mr. Rauber you may begin.

Jorge Rauber

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

Today is with me, Tomás Daghlian, who is our Investor Relations Officer who will replace Fernando Bonnet, our Chief Financial Officer, who was originally announced for this conference, and Tomás will be in charge of reporting and explaining the results of the company. I will first refer to the operating figures of the quarter and then continue with some recent news regarding Central Puerto on the electric energy sector. Finally, Tomás will analyze the financial results.

During the first quarter, we generated 3.5 terawatt hours of electricity, a 3% increase as compared to the same quarter of 2018. This increase was mainly due to a 2% increase in hydro generation and a 156 megawatt hour of additional energy from wind farms Achiras and La Castellana, which started operation during the third quarter 2018. This was partially offset by the 2% decrease in energy generation from our thermal units.

For the general market, according to CAMMESA, electricity demand during the quarter decreased 70% due to lower temperatures during the summer and a decrease in the demand by commercial and industrial customers. On the other hand, the availability of our thermal units reached 92% in the period, which is 2% lower as compared to the first quarter 2018, but 15 percentage points higher than the average availability of the market with the same period for 2018. During this quarter, we continue with the construction of our new projects. Regarding the thermal project, Luján de Cuyo and Terminal 6-San Lorenzo, during the first quarter of 2018, we continuously will work for the construction of the new

cogeneration units and auxiliary equipment. I am pleased to confirm that both projects are within our budget.

Regarding the renewable energy projects, during the quarter we continued with the construction of our La Genoveva I project, which will provide energy through the RenovAr regulatory framework. We also continued with the construction of the wind farms La Castellana II, La Genoveva II, Manque, and Los Olivos, the last 2 previously known as the Achiras II project and the solar farm, El Puesto, which will provide energy to private offtakers through the term market for renewable energy, MATER.

Regarding the projects under the MATER regulatory framework, it is important to mention that we have already signed contracts for 61% of our expected electricity generation from these projects. It is important to note that this long-term by other contracts entered into directly with large customers with prices set in U.S. dollars. We believe that all these projects have set us ahead and reaffirm our position as market leaders in terms of power generation. We will continue to show ability to consistently increase our installed capacity, satisfying the demand of energy for our customers.

As you may recall, on November 7th, the Secretary of Energy issued the Resolution 70 of 2018 according to which authorized generators to purchase their own fuel for the Energia Base thermal units. The generation companies that take this option have to declare a variable cost of production for each unit to CAMMESA, who paid the fuel in accordance to such declaration. According to CAMMESA's procedures, the machine with a lower variable cost of production are dispatched first and consequently have better load factors. Additionally, if a generation company purchased the fuel at a lower price than the one paid by CAMMESA, this may have a result for that generator.

CAMMESA continues to supply the fuel for those generation companies that do not take this option. According to this Resolution, during the first quarter we purchased the necessary fuel for our units, which had a positive impact for our businesses, especially during January and February. Going forward, we plan to continue purchasing our own fuel for our combined cycle and cogeneration units, provided that the conditions are favorable.

Regarding the Brigadier Lopez power plant, as you may recall on February 27th, Central Puerto was notified that it had been awarded the IEASA Bid called by IEASA to acquire the Central Termoelectrica Brigadier Lopez power plant. The acquisition of the Brigadier Lopez power plant was subject to the satisfaction of the certain conditions that had to occur prior to April 1, 2019. Since some of those conditions to the IEASA Bid had not been satisfied, Central Puerto and IEASE are negotiating, among other things, on a new closing date.

Finally, regarding the remuneration of our thermal units under the Energia Base framework, as you may recall, on March 1, 2018, the government issued Resolution 1, which reduced the prices for the power and the energy produced by those machines. According to Resolution 1, these remuneration systems will have a transitional application until the following is defined and implemented: A regulatory mechanism at reaching an autonomous, competitive, and sustainable operation that allows the freedom of contract between supply and demand, a technical economic and operative functioning for the integration of the different generation technologies, so as to guarantee a reliable and cost-effective system.

However, we expect that the effect of these changes will be offset by the income from our new renewable and thermal units.

Finally, regarding the trade receivable associated with the Vuelta de Obligado agreement, as of today, we received the payments related to January and February 2018 corresponding to installments 11 and 12 and we continue in conversations with CAMMESA in order to collect the unpaid amounts previous to those installments.

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

Tomás Daghlian

Thank you, Jorge. Before starting, it is worth noting that the financial statements as of and for the quarter ended on March 31, 2019, include the effects of inflation adjustments, applying the International Accounting Standard Number 29. Accordingly, the financial features that I will mention have been stated in terms of Argentine Pesos as of the end of the reporting period, including the data from previous periods and the growth comparisons here mentioned. Consequently, the comparative information, including the financial statements for the quarter ended on March 31, 2019, is not comparable to the financial statement previously published by us.

The results that we achieved during the first quarter of 2019 were very good, even when considering the reduction in the power and energy prices for the units under the Energía Base regulatory framework. Revenues from continuing operations increased 118% to ARS6.2 billion in the first quarter, mainly driven by:

One, an increasing exchange rate for the first quarter of 2019, higher than the inflation for the period, which impacted power and energy prices set in U.S. dollars in terms of Argentine pesos current at the end of the reporting period. As a reference, during the 12-month period ended at March 31, 2019, the foreign exchange rate increased 115% while the inflation rate for the same period was 55%.

Two, an increase in fuel remuneration for units under Energía Base regulatory framework and other related concepts, which amounted to ARS2.5 billion during the first quarter of 2019, mainly because of income in accordance to Resolution 70, in some of the units under this regulatory framework, compared to ARS245 million during the first quarter of 2018.

Three, a 540% increase in the sales under contracts, which amounted to ARS518 million, during the first quarter 2019, as compared to ARS81 million in the first quarter of 2018, mainly due to the energy generation of wind farms Achiras and La Castellana, which started operation during the third quarter of 2018.

And four, 83 million in the first quarter of 2019 from revenues from the CVO thermal plant management, which started operations on March 20, 2018.

This was partially offset by the decrease in energy and power prices for units under the Energy Base Regulatory framework established by Resolution 1, as Jorge mentioned before, starting on March 1, 2019.

Our gross profit in the first quarter increased 75%. This increase was due to the above-mentioned increase in revenues and was partially offset by an increase in cost of sales that total ARS3.7 billion compared to ARS1.4 billion in the first quarter of 2018. The increase in cost of sales was primarily driven by:

One, an increase in the purchase of fuel and related concepts, which totaled ARS2.3 billion during the first quarter of 2019, as compared to ARS0.4 billion in the first quarter of 2018, due to:

- A) The cost of the self-supplied fuel purchased in accordance to Resolution 70, as was mentioned before, and
- B) a higher price of natural gas used in the units that generate steam or electric energy under the Energía Plus regulatory framework. Mainly due to an increase in the exchange rate during the last 12 months that was higher than the inflation for the period, which impacted in the U.S. dollars denominated price of natural gas, in terms of argentine pesos current at the end of the reporting period. As a reference, during the 12-month period ended on March 31, 2019, the foreign exchange rate increased 115% while the inflation rate was for the same period was 55%.

Two, a 34% increase in non-fuel-related costs of production, which totaled ARS1.4 billion in the first quarter of 2019, as compared to ARS1 billion in the first quarter of 2018, mainly due to:

- A) a 61% increase in maintenance costs totaling ARS170 million, and
- B) a 59% increase in depreciations due to the increase in property, plant and equipment related to the new thermal and renewable energy projects among other increases.

Operating income before other operating results, net increased 84% to ARS2.1 billion compared to ARS1.2 billion in the first quarter of 2018. This increase was due to the above-mentioned increase in gross profits and a less-than-proportional increase in administrative and selling expenses that totaled ARS455 million, a 42% increase as compared to ARS320 million in the first quarter of 2018.

Our adjusted EBITDA was around ARS5.5 billion compared to ARS14.5 billion in the first quarter of 2018, which included an ARS12.3 billion one-time-gain from the CVO commercial approval. Without taking into account this extraordinary gain, the increase would have been 154%. This variation was driven by:

A) The increase in operating results before other operating income mentioned above,

B) a ARS2.9 billion during the first quarter 2019 as compared to ARS500 million in the first quarter of 2018 from the foreign exchange difference on interest accrued on trade receivables denominated in U.S dollars mainly from the foreign trade receivables, and

C) the increasing depreciation and amortization, which totaled ARS470 million during the first quarter of 2019 as compared to ARS330 million in the first quarter of 2018. Consolidated net income was ARS1.2 billion in the first quarter of 2019 compared to

ARS10.9 billion in the same period of 2018, which included an ARS12.3 billion one-time gain during the first quarter of 2018 from the CVO effect.

In addition to the above-mentioned factors, net income was:

A) Negatively impacted by higher financial expenses that amounted to ARS1.5 billion in the first quarter of 2019 compared to ARS770 million in the first quarter of 2018, and

B) positively impacted by higher financial income, which totaled ARS380 million during the first quarter of 2019 compared to ARS265 million in the first quarter of 2018. In each case, under A and B, mainly due to the foreign exchange difference over U.S. dollar denominated debt and financial assets respectively, which excluded FONI and other trade receivables.

Additionally, during the 2018, the results from discontinued operations during the first quarter of 2018, we had a result from discontinued operations of the La Plata Plant for ARS309 million, and the share of profit of an associate decreased in the first quarter of 2019 to ARS97 million as compared to ARS164 million in the first quarter of 2018, mainly due to weaker results from the operations at Ecogas.

In order to have a more precise estimation of the operational cash flow generated during the period, it is important to consider the FONI collections. During the first quarter, we collected ARS800 million from the FONI trade receivables, including the collections from the CVO receivables mentioned by Jorge earlier, as compared to ARS160 million in the same period of 2018. Finally, results from exposure to the change in purchasing power of the currency totaled ARS1.3 billion during the first quarter of 2019 as compared to ARS310 million in the first quarter of 2018.

As for our financial position, we maintain a solid cash balance, which, as of March 31, totaled approximately ARS2 billion for Central Puerto as an individual entity and ARS2.1 billion on a consolidated basis. On the debt side, as of March 31, 2019, financial debt was almost nonexistence for Central Puerto as an individual entity and was approximately ARS6.6 billion, when including the debt from subsidiary, which includes the IFC and IIC long-term project finance facilities for the construction of the wind farm Achiras and La Castellana.

Finally, during the period, we invested ARS2.1 billion for the development of the Lujan de Cuyo and Terminal 6 cogeneration projects and ARS0.2 billion for the renewable energy project.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, you may press star (*) and then one (1) on your touchtone phones. If you are using a speaker phone, we ask you please pick up your handset before pressing the keys to ensure the best sound quality. If at any time your question has been addressed and you would like to withdraw your question, you may do so by pressing star (*), then two (2).

Once again that is star (*) and then (1) to ask a question. At this time, we will pause momentarily to assemble the roster.

And our first question today comes from Frank McGann from Bank of America. Please go ahead with your question.

Frank McGann

Okay. Thank you very much. So, if I could, just two questions. One, just in terms of SG&A, the year-over-year increase is relatively low compared to currency changes and inflation. I was just wondering how you thought that might act as we go through the following quarters, whether we should expect to see a pick-up related to what we have seen in the first quarter? And then secondly, just kind of you know stepping back and looking at the sector, the overall level of capacity in the sector seems, I guess, adequate now. Perhaps some people that you talk to you think there is quite a bit of capacity relative to demand and certainly demand has fallen some, but seeking out on a little bit longer term, I am just trying to think of the potential for new investments and how you are seeing the need for new competitive capacity to come into the market? Clearly, this is a difficult time to do that and realize financing issues and such makes it difficult for the government and the players in the system to want to add capacity, but assuming things normalize, and we have a better environment, do you think there is a good opportunity for substantial new capacity?

Jorge Rauber

Thank you, Frank. I will answer first the second question you made. I would say, in general terms, putting aside the fact that we are, as you mentioned, living in a very tough situation in terms of financing, what we specifically see regarding the sectors that we are facing is a kind of excess capacity at the moment, especially because, as you may know, demand of electricity has been quite stable for the last three years, I would say. Before that, it was growing very fast and now it is kind of stable because of the economic situation, because of the increase of tariff and the elasticity of the demand in terms of price. So, that is what we see today, and on the other side, we have the installation of new capacity, especially coming from the renewal projects and the ones that we, at Central Puerto, and the rest of generators have installed in terms of cogeneration projects and the closing of combined cycles. So, what we see is the installation of more than 4,000 megawatts until May next year, more or less and the demand, which is not growing. So, what we see is an excess capacity, and for sure, we should wait a little bit in order to add more capacity if the objective of that capacity is to meet the peak demand. So, this excess capacity is in terms of megawatts installed.

What we do have is an opportunity to replace very old and inefficient units for new ones. So, the problem is not so much related to installed capacity, which is enough, as I mentioned, and probably an excess capacity, but in terms of efficiency. One of the challenges that the system has is that it has to go back to a path of efficiency, which has been lost in the last 10 or 15 years.

The system used to be very, very efficient and a model for the world and now it is a quite inefficient system where units that are extremely old are still in operation, when should have been disassembled and put out of service several years ago. So, this is the challenge. I mean, we have to change the units, not to add more capacity but to change the existing unit, the old ones for new ones, in order to be more efficient, in order to make more profit for the company, and in order to save fuel and reduce the tariff for the customers. So, that will be a win-win situation if we get our regulatory framework that can

provide that kind of incentive. The replacement of old units for new ones in order to reduce costs and increase the profit of the company. And first one was?

Tomás Daghlian

Yes, I missed which line you were referring to Frank, could you repeat?

Frank McGann

The SG&A line, the ARS455 million that was up a limited amount, what is it, 42% I guess, year-over-year. I just wondered if you thought that we would see larger increases in that line as we go forward. If, I think, if wage increases year-over-year, I think we are up 27%, if I remember right from the release. Should we expect the year-over-year increases to grow more?

Tomás Daghlian

Yes, okay. So, in the first quarter of 2019, the company paid bonuses to the personnel, which was in accordance to the bylaws of the company, Section 33 of the bylaws the company, which impacted the cost of salaries paid to personnel. It is included in that line, but it is an extraordinary result, because these bonuses were related to the extraordinary results that we had last year, which we do not expect to happen again since this was because of the CVO effect. According to the bylaws, a portion of those results have to be distributed to the employees of the company, but this was a one-time thing. And for the ongoing and ordinary wages of the company, as a matter of fact, I would say that the salaries were lower than the first quarter of 2018.

Frank McGann

Okay. Thank you very much.

Operator

Once again if you would like to ask a question, please press star (*) and then (1). To remove yourself from the question que, you may press star (*) and two (2).

And ladies and gentlemen, at this time showing no additional questions, I would like to turn the conference call back over to management for any closing remarks.

CONCLUSION

Jorge Rauber

Well, thank you everyone and for your interest in Central Puerto and your continued support for our company. We encourage you to call us at any time for any information that you may need. Thank you and have a good afternoon.

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect.