



Central Puerto S.A.

Third Quarter 2018 Conference Call

Tuesday, November 13th, 2018, 12:00 PM  
Eastern

CORPORATE PARTICIPANTS

**Jorge Rauber** – Chief Executive Officer

**Fernando Bonnet** – Chief Financial Officer

## **PRESENTATION**

### **Operator**

Good morning and welcome to the Central Puerto conference call following the results for the announcement of the third quarter ended September 30th, 2018. All participants today will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. 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](http://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 sections of our earnings release and recent filings with the SEC. Central Puerto assumes no obligation to update forward-looking statements except under--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 Jorge Rauber, Chief Executive Officer, and Fernando Bonnet, Chief Financial Officer. And now I will turn the call over to Jorge Rauber. Mr. Rauber, you may begin

### **Jorge Rauber**

Okay. Thank you and welcome, everyone. We are joining you this morning with our management team from Buenos Aires, Argentina to report on our third quarter 2018 results and to answer any questions that you may have.

Regarding our operating figures, during the quarter we have reached 4.4 terawatt hours of energy generation, an increase of 12% as compared with the third quarter of 2017. This increase was well above the 3% increase of energy generation of the total market, and was mainly driven by a 53% increase in hydro generation, which recovered after 2016 and '17 drought, and the start of operations of the wind farms La Castellana I and Achiras I in August and September respectively.

Regarding the availability of our thermal units, it also improved, reaching 94% in the period, two percentage points higher than our availability in the third quarter of 2017 and 15 percentage points higher than the average availability of the market during the third quarter of 2018, according to data from CAMMESA.

During this quarter, we continued with the construction of our new projects. Regarding the thermal ones, as you may recall, during 2017 Central Puerto was awarded with two new cogeneration projects, Luján de Cuyo and San Lorenzo, that will add more than 420 megawatts to our installed capacity. During the third quarter, we continued with the purchase of the main components needed for these projects, and the civil works for the construction of the two generation units and auxiliary equipment and the administrative offices. I am pleased to confirm that both projects are on time and within budget.

As for our renewable projects, I would like to give you a brief overview of the operational progress on them. As we mentioned before, during the quarter we ended the construction of La Castellana I and Achiras I wind farms, and we signed an agreement for the purchase of the wind turbines for the project La Genoveva I, which will provide energy through the RenovAr program, and La Castellana II, La Genoveva II, and Achiras II, which will provide energy to private off-takers through the term market for Renewable Energy, MATER.

During the period, Central Puerto also purchased the solar project El Puesto, located in the province of Catamarca, which will have 12 megawatts of additional installed capacity to sell energy in the term market. Including the last project, we are pleased to announce that we have already signed contracts for 40% of our available installed capacity to sell energy in the term market.

We believe Central Puerto's performance has set us ahead and has reaffirmed our position as market leader in terms of capacity generation. We will continue showing the ability to consistently increase our installed capacity, satisfying the growing demand and quickly adapt to the new rules of the changing environment.

Regarding the last issue, on November 7th the Secretariat of Energy issued the Resolution 70/2018, according to which authorized generators to procure their own fuel for legacy assets. If generation companies take this option, the fuel cost will be valued and paid to the generators in accordance with the variable cost of production declared to CAMMESA.

According to CAMMESA procedure, the machines with the lower variable cost are dispatched first and, consequently, have better load factors. Additionally, these generators have the opportunity to make a profit if the fuel is purchased at a price lower than the price paid by CAMMESA. The agency in charge of dispatch, CAMMESA, will continue to supply the fuel for those generation companies that do not take this option.

According to this resolution, we have recently made the variable cost of production declaration to CAMMESA for the Luján de Cuyo combined cycle. And we are currently operating this unit, as well as the cogeneration unit, with natural gas purchased by the company. Our objective is to expand this operation to the rest of our units in the coming weeks. In our view, this is a positive move in order to increase the competition in the energy generation market.

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. The results achieved during the quarter were very good even when considering the current context, mainly due to the benefits of dollar-denominated tariff adopted in the sector last year.

Revenues from continuing operations increased 128% to 3.5 billion pesos in the third quarter 2018, mainly driven by a 12% increase in energy generated from continuing operations to total 4.4 terawatt hours, as Jorge mentioned before; a tariff increase established in 2017 which set higher prices for energy generation and availability, the third quarter was fully impacted by the November 2017 tariff increase, and finally, an 85% increase in the average exchange rate during the third quarter as compared in the same period of 2017.

Our gross profit margin increased 8 points to 66%, explained by a less than proportional increase in our cost of sales of 83%, mainly driven by the increase in the dollar-denominated cost of natural gas and natural gas transportation fees, among others.

Our adjusted EBITDA was around 8.8 billion pesos, mainly driven by 6.3 billion pesos in interest and foreign exchange difference associated with the FONI and similar programs trade receivables, which are denominated in U.S. dollars. Without taking into account this effect, our adjusted EBITDA during the third quarter of 2018 was 2.5 billion pesos, an increase of 168% as compared to 940 million pesos obtained in the third quarter of 2017.

This increase was mainly driven by the increase in gross profit mentioned above, and an increase in other operating results of 170 million pesos on the third quarter 2018, mainly driven by higher interest and foreign exchange difference other than the FONI receivables and similar programs.

This was partially offset by a 79% increase in the administrative and selling expenses, mainly due to a higher labor cost as a result of an increase of the number of employees, mainly related to the development of the new thermal and renewable projects, and a salary adjustment agreement in the collective bargaining during this period; finally, an increase in tax and bank account transactions due to the increase in revenue and costs of capital invested and completed during the period.

In order to have a more precise estimation of our operational cash flow generated during the period, it is important to consider the FONI collections. During the third quarter, we collected 143 million pesos from FONI collections associated with the San Martin and Belgrano plants. As for the trade receivables associated with the CVO agreement, certain documentation has substantially been finalized by CAMMESA and is ready to be signed by the authorities.

As for our financial position, we maintain a solid cash balance, with a September 30 total of approximately 1.4 billion pesos for Central Puerto as individual entity, and 1.7 billion pesos on a consolidated basis.

On the debt side, at September 30, financial debt was almost non-existent for Central Puerto as individual entity, and was approximately 6.7 billion pesos, which includes \$152 million associated with the IFC and IIC facilities for the construction of the wind farms Achiras I and La Castellana I.

Finally, during the period we invested 1.1 billion pesos for the development of Lujan de Cuyo project and terminal 6 San Lorenzo project, and 2.8 billion pesos for the renewable projects.

Continuing with our expansion, our estimated CAPEX for our renewable and thermal projects are \$86 million dollars for the last quarter 2018, \$260 million for 2019, and \$10 million for 2020. This expansion will allow us to add 660 megawatts to our portfolio, an increase of more than 17% of our capacity, reaching 4.5 gigawatts of total installed capacity by the third quarter of 2020.

Well, thank you. And now we invite you to ask any question to our team.

## QUESTION AND ANSWER

### Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your touch-tone phone. If you are using a speakerphone, we do ask that you pick up the handset before pressing the keys. To withdraw the question, please press star then two. Once again, if you would like to ask a question today, please press star then one.

Today's first question will be from Frank McGann with Bank of America Merrill Lynch. Please go ahead.

### Frank McGann

Yes. Thank you. I was just wondering--there's been a lot that's changed, I guess over the last couple of months, in terms of perspective for regulatory changes. And I was just wondering if perhaps you could give kind of a broad overview of what you're hearing, what you're thinking, and specifically related to the change that you mentioned about being able to purchase your own gas and then opt potentially into the system, what your thoughts are on that and what the effects potentially could be or how that could change the competitive dynamics in the sector.

### Jorge Rauber

Okay. Thank you, Frank. What we see--I mean, there is a fierce move that the government has made with the change of regulation I mentioned. For sure is just a first step towards some more broad regulation that has to be in place somehow perhaps in the first quarter or next year, something like this.

What we have today is the ability to buy our own fuel, which was part of the regulation we expected to be in place by the end of the year. So, the government did what they promised to do. What we see today is just part of that in the sense that we are able to buy our own fuel, but the whole regulation has not changed yet. What we have today is the ability to buy our own fuel and make some margin compared with the prices that CAMMESA is buying fuel, basically.

CAMMESA has made a kind of bidding process in September this year where they got some prices in terms of natural gas. And whenever you are able to get better prices than the prices that CAMMESA was able to get, you make some margin and you somehow guarantee your dispatch.

So, we don't see this as a huge change. We see this as an opportunity to make some profit, to ensure our dispatch, the dispatch of our units, but it's just a small change. In fact, what we did last week was to ensure the dispatch of one of our plants and make half a million dollars in terms of profit, or expected profit, basically. But this is not the whole regulatory change.

We had some meetings with the government. What they are working on is a change of regulation in the sense that they plan to reduce somehow the payments in terms of capacity prices and to increase the variable margin that the most efficient units of the system can make through their operation. So, it's basically giving back, I mean, efficiency and market conditions to the operation of the generators.

So, we don't know exactly when they are going to change the regulation. They expect that

to finish by the first quarter next year, and then we will have a better perspective of how the new regulation looks like. Part of that regulation will be to have again a term market for generation, not just for the renewable. That is what we have today. It's for the whole market.

And if that is put in place, for sure the regulatory framework will change completely. I mean, perhaps the most important thing will be to have a term market again, because that way that ensures that all prices will be--will have a competitive factor. The prices will be reduced, and we we'll have the opportunity to buy not just fuel but also to change completely the structure of the system buying new units to supply the demand, and all those measures that are needed by the market.

**Frank McGann**

Okay. And if they do that, will--how do you see Puerto positioned to compete in that kind of a market?

**Jorge Rauber**

Well, generally speaking, Central Puerto has an efficiency which is higher than the average of the market. So, if you think of a regulation which basically keeps the total payments to the market and is just a shift between inefficient generators to more efficient generators, for sure Puerto will be--we see this as a very good opportunity because we have units that are more efficient than the average of the market, but we really don't have the details of that regulation.

Perhaps the most important thing here is the transition, I mean, how to change from the system that we have today where we have probably an excess of installed capacity, a lot of renewable, I mean, entering the market one after the other, a lot of cogeneration projects, and an excess of capacity, which is what I mentioned. So, perhaps the transition will be the most difficult thing to do, and we don't have the details. But in the long term, for sure that will be good for us.

**Frank McGann**

Okay. Thank you very much.

**Jorge Rauber**

You're welcome.

**Operator**

Again, if you'd like to ask a question, please press star then one. Today's next question will be from Florencia Torres with TPCG. Please go ahead.

**Florencia Torres**

Hi all. Thanks for taking my question. I have three questions, one a follow up regarding potential changes on regulatory framework for all energy. You mentioned that one alternative would be to change the fixed payment and increase the variable payment. I would like to check the heat rate of combined cycle plants for Central Puerto and steam turbines too.

And the second question was regarding the acquisition of the solar project, if you can disclose the amount of the transaction and some EBITDA that you are expecting for the project. And the last question is regarding the CapEx, just to double check the CapEx for 2020. I am not sure if I listened well, 10 million and 260 for 2019. Thank you.

**Jorge Rauber**

Okay, the first--thank you, Florencia. The first question was regarding the heat rate of the combined cycle of Central Puerto and the steam turbines?

**Florencia Torres**

Yes.

**Jorge Rauber**

Was that right? Okay. Well, the heat rate for our combined cycles is around a 1,600 kilocalories per kilowatt hour considering, I mean, an average operation. That means that because--it's not a fixed rate in the sense that, whenever you are operating at a lower load factor, you tend to have a higher heat rate so you consume more fuel than normal. And when you are operating at full capacity, your heat rate is lower. But as an average, it's 1,600 kilocalories per kilowatt hour.

As for our steam turbines, we have different categories or different efficiency for the different units. The most efficient ones are around 2,200, and the more inefficient one is the number 5 here in Puerto, which is around 2,400. So, when you think of our competitive market, for sure the combined cycle is very well positioned.

And they--all steam turbines are probably out of dispatch. When you, I mean--and if you compare with the cogeneration plants, those plants are clearly the most efficient one. The heat rate is 1,500 kilocalories per kilowatt hour. So, those units will be dispatched all the time at full capacity.

**Florencia Torres**

Perfect.

**Fernando Bonnet**

Regarding your question about the CapEx, the CapEx for the--I think you asked for the CapEx of 2020 or 2019?

**Florencia Torres**

2020. I am not sure if you mentioned \$10 million or \$210 million.

**Fernando Bonnet**

No, no, no. For 2020, it's \$10 million. This is the remaining CapEx for the last project entering into 2020, which is the terminal 6 San Lorenzo cogeneration.

**Florencia Torres**

Okay, perfect. And regarding the acquisition of the solar project, how much are you expecting to invest?

**Fernando Bonnet**

Well, this is a small project. It's 10 megawatts only, so we expect to invest around \$15 million.

**Florencia Torres**

Okay, perfect. Thank you so much. It's all clear.

**Fernando Bonnet**

Thank you.

**Operator**

Once again, if you have a question, please press star then one. With no other questions, this will conclude today's question and answer session. I'd like to turn the conference back over to Mr. Rauber for any closing remarks.

**CONCLUSION****Jorge Rauber**

Well, thank you to everyone for your interest in Central Puerto and your continued support of our company. 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. We want to thank everyone for attending today's presentation. And at this time, you may now disconnect.