



Central Puerto Conference Call
Fourth Quarter/FY 2018 Earnings Results
Tuesday, March 12, 2019, 1:00 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 announcement for the fiscal year ending December 31, 2018. 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. After today's presentation, there will be an opportunity to ask questions.

Please note, this event is being recorded. If you don't have a copy of the press release, please refer to the Investor Support section on the company 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 statement section of our earnings release in our 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 the IFRS and are stated in Argentinian 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

Thank you, and welcome, everyone. We are joining you today with our management team from Buenos Aires, Argentina to report on the 2018 results and to answer any questions you may have.

I will refer first to the operating figures of the fourth quarter 2018 and then continue with some recent news regarding Central Puerto and the electric energy sector. Finally, Fernando will analyze the very good results for the year.

During the fourth quarter, we have generated 3.5 terawatt hours of energy generation, a decrease of 14 percent as compared to the fourth quarter of 2017. This decrease was mainly due to a 44 percent decrease in the hydro generation explained by the decision from CAMMESA to increase the water reserves for the 2019 summer months and a reduction in the water flows from the Limay and the Collon Cura rivers. Thermal production during this period decreased 2 percent as compared to the same period of 2017.

For the general market, electricity demand during the quarter decreased 6 percent due to the lower temperatures in the last month of the spring and the beginning of the summer and a decrease in the demand by commercial and industrial consumers.

On the other hand, the availability of our thermal units improved, reaching 94 percent in the period, 3 percentage points higher than our availability in the fourth 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, in 2017 Central Puerto was awarded with a new cogeneration projects, Lujan de Cuyo and San Lorenzo, so that we 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 this project and the civil works for the construction of the new generation units and the auxiliary equipment. I am pleased to confirm that both projects are on time and within budget.

I would like to give you now a brief overview of the operational progress of our renewable projects. The fourth quarter was the first quarter of full operation for both the La Castellana I and Achiras 1 wind farms. We are happy to announce that the average load factor for this first quarter of operation was 51 percent, as expected before the construction of the project.

Regarding the rest of our operations, during the quarter we continued with the construction and purchase of equipment for our La Genovevo 1 project, which will provide energy through the RenovAr regulatory framework. We also continue with the La Castellana II, La Genoveva II, and Achiras II wind farms and El Puesto solar farm, which will provide energy to private off takers through the Term Market for Renewable energy, MATER.

Regarding the project standard, the MATER regulatory framework, it is important to mention that we already signed contracts for 42 percent of our available installed capacity. As you may recall on November 7, the Secretary of Energy issued the Resolution 70, according to which-- authorized generators to purchase all 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 pays the fuel in accordance to such declaration.

According to CAMMESA's procedures, the machines with the lower variable cost of production are dispatched first and consequently have better load factors. Additionally, if a generation company purchased the fuel at the lower price than the one paid by CAMMESA, this may have results for that generators. CAMMESA continued to supply the fuel for those generation companies that do not take this option.

According to this resolution, during November and December we started to purchase the necessary fuel for our units, which had a positive impact for our business. During January and February, we continued with the purchase of our own fuel, and we plan to continue with this opportunity, provided that the conditions are favorable.

Regarding the recent news, as you may know, we have been awarded the Brigadier Lopez plant in the auction conducted by Integracion Energetica Argentina (IEASA), a state-owned company. The plant currently operates with a gas turbine of 280 MW in an open cycle configuration, and it is currently in the last stages to add a steam turbine in a combined cycle configuration, which will add 140 MW.

Once completed, the combined cycle will increase its efficiency significantly, becoming the most efficient combined cycle of Argentina in terms of heat rate, according to CAMMESA's estimations. The power capacity and the energy produced will be taken by CAMMESA under PPA's agreements with high prices.

The price offered for this transaction was \$165 million, from which \$155 million will be paid in cash, and \$10 million will be settled with the transfer of trade receivables owed to the company

by CAMMESA. Central Puerto will also assume \$161 million in debt, to be paid in 41 monthly installments.

This transaction and the CapEx needed to finish the combined cycle--we are in the process of getting a loan facility with four international banks. The plant is scheduled to be transferred effectively on April 1, 2019, and we expect to finish the construction of the combined cycle by the end of 2020. The estimated capital expenditures for this project is around \$110 million.

We believe that all these projects have set us ahead and reaffirm our position as market leaders in terms of power capacity. We will continue showing the ability to consistently increase our installed capacity, satisfying the demand of energy of our customers.

Regarding the remuneration of our thermal units under the Energia Base framework, on March 1, 2019, the government issued Resolution Number 1, which reduced the prices for the power and the energy produced for those units. Pursuant to the new scheme, the new price of energy generation will be 5.4 dollars per MWh when burning natural gas and 8.4 dollars per MWh when burning liquid fuels.

Additionally, power prices will be up to \$7,000 per MW per month during December, January, February, June, and July, six months of the year--and August--and up to \$5,500 per MW per month during March, April, May, September, October, and November, the rest of the year. These prices are multiplied by a percentage, which depends on the average utilization factor of each unit during the previous last 12 months.

So, if the utilization factor is above 70 percent, the units receive 100 percent of the price, which is the case for our combined cycles and cogeneration units, which during 2018 had a utilization factor of about 90 percent and totaled 1.2 GW of installed capacity.

If the utilization factor is below 30 percent, the unit receives 70 percent of the price. This may be the case for some of our small steam turbines, which total 365 MWs. And if the utilization factor is between 30 and 70 percent, the machine receives a linear proportion between 70 and 100 percent. This would be the case for some of our large steam turbines that total 500 and had an average utilization factor of around 60 percent during 2018 and some of our small steam turbines totaling 205 MW, which had a utilization factor of between 30 and 35 percent during 2018.

It is worth noting that the remuneration of the hydro plants has not suffered major changes and the price continued to be denominated in U.S. dollars. Moreover, we expect that the sale reduction pursuant to these changes will be lower than the increase in our income pursuant to the purchase of the Brigadier Lopez plant.

According to Resolution 1, this remuneration system will have a transitional application until the following is defined and implemented: regulatory (unintelligible) mechanisms aimed to reaching an autonomous, competitive, and sustainable operation that allows for freedom of contract between supply and demand, a technical, economic, and operative strengthening for the integration of the different generation technologies so as to guarantee a reliable and cost-effective system.

Finally, regarding the trade receivables associated with the CVO agreement, as of today all the necessary documentation has been finalized by CAMMESA. This month we are going to collect the installment corresponding to January 2019.

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 I start, it is worth noting that the financial statement for the year ended on December 31, 2018 include the effects of the inflation adjustment, applying the International Accounting Standard 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 period and the growth comparisons herein mentioned. Consequently, the information included in the financial statement for the year end on December 31, 2018 is not comparable to the financial statement previously published by us. The results achieved during 2018 were excellent, even when considering the current context.

Revenues from continuing operations increased 48 percent to 14.3 billion pesos in 2018, mainly driven by the tariff increase established by Resolution 19, which established higher prices for energy generation and machine availability and denominated them in U.S. dollars--an increase in the exchange rate for 2018, higher than the inflation for the same period, which impact in our tariffs set in U.S. dollars in terms of Argentine pesos.

As a reference, during 2018 the foreign exchange rate increased 102 percent, and the inflation rate was 48 percent, while during 2017 the foreign exchange rate increased 17 percent, and the inflation rate was 25 percent.

And finally, the impact of the operation since November 2018, as Jorge mentioned, with self - supplied fuel recognized by CAMMESA in accordance to Resolution 70--natural gas used during November and December of 2018 in our units under the Energia Base regulatory framework amount around 2.1 billion pesos.

This was partially offset by 7 percent in energy generation from continuing operations that totaled 4.5--sorry, 14.5 GWh during 2018 and less availability from our thermal units during 2018, especially in the first quarter, mainly because of the scheduled maintenance of our combined cycle--Puerto combined cycle plant.

Profit margin increased 8.5 points to 15 percent. The above-mentioned increase in revenues was partially offset by a less-than-proportional increase in cost of sales that totaled 6.5 billion pesos, a 25 percent increase as compared to 5.2 billion pesos in 2017. The increase in cost of sale was primarily driven by the cost of the self-supplied fuel purchased in accordance to Resolution 70 described above for the total amount of 1.9 billion pesos and an increase in terms of Argentine pesos natural prices set in U.S. dollars, related to the production of steam and energy and of the Energia Plus framework, mainly due to a decrease of 220 million pesos in operation and maintenance costs due to a decrease in energy generated and a 59 million pesos decrease in operating income before -- operating results net increased 89 percent to 6.389 million pesos, compared to 3.383 million pesos in 2017.

This increase was due to the above-mentioned increase in gross profits and increase in administrative and selling expenses that total 1,389 million pesos, a 32 percent increase as compared to 1,060 million pesos in 2017.

Our adjusted EBITDA was around 32 billion pesos, which includes 12 billion pesos in interest and foreign exchange difference associated with FONI and similar programs--trade receivables, which are denominated in U.S. dollars and the CVO effect of 11 billion pesos.

Without taking into account this effect of FONI and CVO effect, our adjusted EBITDA during 2018 was 9 billion pesos, an increase of 64, as compared to 5.5 billion pesos obtained in 2017.

This increase was mainly driven by the increase in gross profits mentioned above. In order to have a more precise estimation of the operation and cash flow generated during the period, it's important to consider the FONI collections during 2018. We collected 654 million pesos from FONI collections associated with San Martin and Belgrano plants. As for the trade receivables associated with CVO agreement, as Jorge mentioned, we expect to start collecting them on March--on this March 3.

As for our financial position, we maintain a solid cash balance, which as of December 31 totaled approximately 2 billion pesos for Central Puerto as an individual entity and 2.2 billion pesos on a consolidated basis.

On the debt side, as of December 31 of 2018, financial debt was almost non-existent for Central Puerto as an individual entity and was approximately 5.9 billion pesos, which include \$152 million associated with the IFC and IIC facilities for the construction of the wind farms Achiras and La Castellana.

Finally, during the period, we invested 2.7 billion pesos for the development of Lujan de Cuvo and San Lorenzo cogeneration project and 2.8 billion pesos for the renewable project.

Continuing with our expansion, our estimated CapEx for our thermal project is around \$208 million for 2019, plus the necessary CapEx to close the Brigadier Lopez combined cycle of around \$110 million, as Jorge mentioned before.

This expansion will allow us to add 1,079 MW to our portfolio, an increases of more than 28 percent, reaching 4.9 GW of total installed capacity by the last quarter of 2020.

And 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 speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

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

Frank McGann

Hi. Thank you very much. Just two questions, if I could. One is--and perhaps you said this, and I just missed it, but I don't think so. In terms of the changes to pricing that were announced

a couple weeks ago, have you come up with an estimate of what that would mean in terms of reduced profitability? I know you indicated that combined with the new plant that you should be perhaps ahead. But, if you had an estimate of what the effects would be on profitability, that would be helpful.

And then secondly, given the more comfortable supply-demand situation in Argentina in terms of generation capacity, I was wondering how you are thinking about the ability to bring on new projects going forward. Is it likely to be a little bit slower to add new projects or to want to add new projects? Or do you still see good opportunities to bring on new plants?

Jorge Rauber

Thank you, Frank, for your question. Regarding the first one, I have to say a couple of things. The first one is that this is, as I mentioned, a resolution which is not the final regulatory framework, so we don't know exactly how long it will last. According to a meeting we had yesterday, the government told us that they were planning to have a new regulation by next year--something. So, we have to think of this resolution as one resolution which is just a transition between now and the new one. So, it's not a definite regulatory framework.

But, going to what you ask, our estimation is an impact of more or less 15, 20 percent in terms of EBITDA--for the EBITDA we have today. So, without new projects that are going to be in line by the end of the year, the cogeneration project and the new projects we are going to have on line next year--the cogeneration projects--so more or less that kind of range.

Of course, it depends on the actual dispatch. Each plant's dispatch has been changing the last month because of the fact that CAMMESA started using the real price of the gas, which is imported from Bolivia. That means an increase of our generation because we are mostly supplied from Ucan (SP), which is a cheaper gas price, so dispatch has been changing. So, it's just a kind of rough estimation considering a full-year impact. And as I mentioned, we are not sure that this resolution will last one year.

And the second one, what we see today is a kind of excess capacity in the market, so we don't see much opportunity for new projects except perhaps for renewables. We don't have objective which was set by law which is--have 20 percent of the total demand supplied using renewable sources. They have first to increase transmission capacity and after that to--I mean, action for those new projects.

So, there is an opportunity. It's rather difficult because of the financial and economic condition of the country today. Just to expand the transmission system--it is very difficult today to do it.

Frank McGann

Okay.

Jorge Rauber

And just renewable, I would say after an increase in transmission lines.

Frank McGann

If I could maybe just follow up just in terms of--you mentioned the meeting and a possible additional step towards what I assume would be a more competitive market. Did they give any indication of what types of additional changes they could make?

Jorge Rauber

Not really, not really. The only thing they said was they say, "Okay, don't think of this as the definite one. We are going to start working on a new regulation by mid--by June or something this year." But, I for sure would think that next year we would have a new regulation. For sure, this cannot be the final resolution because it provides no incentive for efficiency. It doesn't solve any kind of problems regarding results in the-- interaction between renewable sources of energy, which are basically unstable and not firm--with a firm capacity.

So, all those signers should be provided by a new regulation, and they plan to start working on this, as I mentioned, in May or June this year. But, they didn't give us any kind of clear indication what kind of framework they are thinking about.

Frank McGann

Okay, thank you very much.

Jorge Rauber

Thank you.

Operator

And once again, if you would like to ask a question, please press star then one. Once again, that is star, then one, to ask a question.

And we have a follow up question from Frank McGann with Bank of America. Please go ahead.

Frank McGann

Okay, thanks. I was just wondering if you had thought if you might provide the fourth quarter standalone numbers, or is that something we need to make our own estimate of what the nine-month numbers would be and estimate the fourth quarter?

Jorge Rauber

Normally, we don't provide that information because, in fact, we don't have this number audited by our auditors. We can give some--perhaps some information about the operational performance--some information in our press release. But, we can provide you some operational information--all the assets--but normally we don't have these numbers audited by our auditors.

Frank McGann

Okay, thank you.

Operator

Once again, if you would like to ask a question, please press star, then one. And this will conclude our question-and-answer session. I would 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 to 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. Thank you for attending today's presentation. You may now disconnect.