



Central Puerto S.A.

Q4 2019 Results Conference Call

Wednesday, March 11, 2020, 12:00 P.M.  
Eastern

**CORPORATE PARTICIPANTS**

**Jorge Rauber** – *Chief Executive Officer*

**Fernando Bonnet** – *Chief Financial Officer*

**Milagros Grande** – *Financial Manager*

**Tomas Daghljan** – *Investor Relations Officer*

## **PRESENTATION**

### **Operator**

Good morning, and welcome to Central Puerto Conference Call following the results announcement of the quarter ended on December 31, 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](http://www.centralpuerto.com). A replay of today's call will be accessed by accessing the webcast of the Investor Support section of the Central Puerto corporate website.

Before we proceed, please note that certain statements may be 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 the IFRS and are stated in the Argentinian pesos, unless otherwise noted.

For following the discussion better, please download the webcast presentation available on the company's website. 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 for Central Puerto is Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Financial Officer; Milagros Grande, Financial Manager; and Tomás Daghlán, 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 fourth quarter 2019 and answer any questions you may have.

Our agenda for today's call, as you see on page 2, will begin with the update of the expansion project developed during the fourth quarter 2019 and full year 2019; and then, continue with the operating figures of the quarter. Finally, Fernando will analyze the financial results of the quarter and full-year and explain the recent changes in the tariffs for Energía Base effective as from February 1, 2020.

As you can see on page 3 of the presentation, during 2019, we have managed to expand our installed capacity 12%, including 367 megawatts of thermal units and 94 megawatts from renewable wind farms.

As you may remember from our prior calls, during the second quarter 2019, we purchased the Brigadier López Plant and in the third quarter 2019 the wind farms La Castellana II and La Genoveva II commenced their commercial operations.

During the fourth quarter 2019, we also have good advances. For example, as you can see on page 4, the new Luján de Cuyo cogeneration unit started operations on October 5, seven weeks before the schedule agreed with CAMMESA, adding 95 megawatts to our installed capacity. Early initiation of its operation represented around \$7 million in additional income.

Because of that asset cogeneration unit, this machine is among the most efficient of the system with almost full dispatch during the whole year. As a matter of fact, during the quarter this new unit generated around 180 gigawatt-hours. We also continue with the development of the Terminal 6 San Lorenzo Project too, as you can see on page 5 of the presentation. This unit will add 330 megawatts to our installed capacity, and more importantly, will provide electric energy and steam with high efficiency for our customers. We have already completed around 70% of the construction. The COD committed with CAMMESA is on September 2020 for the complete project and we expect the gas turbine to be operational during May 2020.

We also have good news on the renewable energy projects. As you can see on page 6, the Manque project started operation for 38 megawatts of installed capacity during December 2019 and completed the construction of total installed capacity of 57 megawatts during the current quarter. Additionally, during February 2020, Los Olivos commenced commercial operations, adding 23 megawatts to our installed capacity.

Going forward, we continue with the construction of the La Genoveva I wind farm, which will add 88 megawatts to our installed capacity under the RenovAr program. We have received—sorry, in November, we have received \$76 million loan from the International Finance Corporation to support this project and our project finance structure. And though the4 contracted COD of this project was May 2020, it may be delayed due to the recent outbreak of the coronavirus, which may affect some of our suppliers. This problem could affect the other projects, Terminal 6 San Lorenzo project as well, especially further restrictions are applied to international products, and many of the technical specialists required for the startup of the project are based in foreign countries.

Going now to our key performance indicators of the quarter. As you can see on page 8. Energy generation during the fourth quarter was 4.1 terawatt-hours of electricity, 18% higher than the fourth quarter of 2018. This increase was first due to a 17% increase in hydro generation from Piedra del Águila, related to higher water flow in the Limay and Collón Curá rivers; and secondly, energy generation from the renewable units also increased 17%, mainly due to the positive impact of the purchase of the Brigadier López plant and the new cogeneration unit in the Luján de Cuyo plant.

Additionally, generation from our thermal units increased 46%, mainly due to positive impact of the new wind farms like La Castellana II, La Genoveva II, which began commercial operations in the third quarter 2019, adding 56 megawatts to our renewable energy portfolio in Manque, which commenced operation with 38 megawatts during December 2018 to supply large users under the Term Market regulatory framework.

Regarding the projects under this regulation, which is up-to-date, have all reached their commercial operation, we are happy to announce that 100% of the energy from them has already been contracted directly with large users with prices set in U.S. dollars in long-term PPAs. Regarding our thermal units, as you can see on the graphic on the right in the

same page, we continue to show an excellent track in terms of availability reaching 92%, 3 percentage points higher than the same quarter of 2018. This figure is 10 percentage points above the average availability of thermal units of total market showing Central Puerto's competitive advantage.

Now, I will turn the call over to Fernando, who will comment on the financial highlights.

### **Fernando Bonnet**

Thank you, Jorge. Before starting, it is worth noting that the financial statements for the year ended on December 31, 2019, include the effects of inflation adjustments, applying 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 periods and the growth comparisons here mentioned. Consequently, the comparative information included in the financial statements for the quarter ended on December 31, 2018, is not comparable to the financial statement previously published by us.

I will refer to the results of fourth quarter 2019 as compared to the fourth quarter 2018. The results from our operation during the fourth quarter of 2019 were in line with our expectations. As you can see on page 10, our revenues increased 52% to ARS 11.4 billion in the fourth quarter compared to ARS 7.5 billion during the fourth quarter of 2018, mainly driven by an increase in sales under contracts, which amounted to ARS 3.1 billion during the fourth quarter of 2019 as compared to ARS 800 million in the fourth quarter of 2018, mainly due to the revenues related to Brigadier López plant acquired in June 2019, the energy generation from wind farms La Castellana II and Genoveva II and Manque, which started operation during June, September, and December 2019, respectively; and the new Luján de Cuyo cogeneration unit, which started operation in October 2019; and an increase in revenues for Energía Base that totaled ARS 7.8 billion as compared to ARS 6.3 billion in the fourth quarter of 2018, mainly due to higher generation from units under this regulatory framework and the income related to self-supplied fuel, which amounts to ARS 3.6 billion during the fourth quarter of 2019, compared to ARS 2.2 billion during the fourth quarter of 2018.

Going to page 11, we can see the change in our adjusted EBITDA, which reflects the increase in our gross profit, which in the quarter raised 22% as compared to the same period of 2018. This was due to the increase in revenues mentioned before and was partially offset by an increase of cost of sales that totaled ARS 6.2 billion compared to ARS 3.2 billion in the fourth quarter of 2018. The increase in the cost of sale was primarily driven by, first, an increase in the use of self-supplied fuel used for both the production of the steam or to replace part of the fuel previously supplied by CAMMESA for the units under Energía Base framework, which totaled ARS 3.2 billion during the fourth quarter of 2019, as compared to ARS 1.7 billion in the fourth quarter of 2018. Second, the increase in OpEx related to the new thermal and renewable energy plants, and third, depreciation increased an ARS 800 million, due to the new thermal and renewal projects.

Operating income before other operating results, net, increased 23% to ARS 4.3 billion compared to ARS 3.5 billion in the fourth quarter of 2018. This increase was due to the above-mentioned increase in gross profit; and second, an approximately proportional increase in administrative and selling expenses that totaled ARS 840 million and 20%

increase as compared to ARS 700 million in the fourth quarter of 2018, mainly related to the new generation projects.

Finally, other operating results, net decreased 340 million in the fourth quarter, mainly due to an impairment in property, plant and equipment, which amounted to ARS 3.7 billion in the quarter, due to a higher discount rate and the changes in Energía Base regulatory framework. This was partially offset by the ARS 1.5 billion gain in foreign exchange difference associated with the FONI and similar programs trade receivables, which are denominated in U.S. dollar as compared to a loss of ARS 2.4 billion in the fourth quarter 2018.

As a consequence of these variations, the adjusted EBITDA was around ARS 4.2 billion in the fourth quarter of 2019, increasing from ARS 2.9 billion in the fourth quarter of 2018.

The consolidated net income was ARS 1.3 billion compared to ARS 1 billion in the fourth quarter of 2018. In addition to the factors mentioned before, the net income was mainly affected by the higher financial expenses that amounted to ARS 2.3 billion in the fourth quarter 2019 compared to ARS 840 million in the fourth quarter 2018, mainly due to the interest and foreign exchange rate difference accrued on the higher net debt position during the period related to the loans obtained for the thermal and renewable energy expansion projects and the decision of Brigadier López Plant, most of which are denominated in U.S. dollars.

Just to recap the main financial figures of the year 2019, please refer to page 12. Our net income was ARS 8.7 billion, which represents a gain of ARS 58.5 per ADR. Compared to the net income in 2018, it is important to recall that on 2018, we had an extraordinary one-time gain associated to the update of CVO receivables, which amounted to ARS 17 billion before taxes, which explains most of the drop in our adjusted EBITDA and net income of 2019. The adjusted EBITDA was positively impacted by the new projects, which was partially offset by the impairment in some of our thermal assets due to a higher discount rate and the change in Energía Base framework.

Moving to page 13, you can see our cash flow for 2019. Net cash provided by operating activities was ARS 11.9 billion during 2019. This cash flow arises from the operating income mentioned before and the net cash provided by financial activities was ARS 17 billion in 2019. This amount was a result of ARS 19.6 billion in loans received net of principal repayments related to expansion projects mentioned before, mainly related to the acquisition of Brigadier López power plant, the Luján de Cuyo cogeneration unit, and La Castellana II, La Genoveva I, and La Genoveva II wind farms. Net cash used for CapEx and investing activities was ARS 27.9 billion in 2019.

Finally, let us mention some of the regulatory changes for units under Energía Base, a summary of which you can see in page 15 of our presentation. Initial energy variable prices remain almost unchanged, although denominated in Argentine pesos. Initial Power fixed prices for thermal units were reduced around 16%. Initial Power--fixed Power prices for hydro plants were reduced in around 45%. This new regulation creates a new remuneration for generation in the 50 power peak hours of the month, which, in our estimation, should help to mitigate the power fixed prices reduction in around 30%. And the prices are now set in Argentine pesos with an adjustment and monthly adjustment considering a mix of 60% of the Consumer Price Index and 40% of the Wholesale Price Index. You can see further details in our last press release.

As a consequence of these changes, we expect a reduction in our legacy EBITDA of 15%, and with this reduction, the Energía Base in our EBITDA for 2020 will drop from 40% to 36%. It is important to note that this price change only affects the spot sales, that is Energía Base. The sales under the PPAs and the cash flow from FONINVEMEM and CVO installments are not affected by this change.

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

## QUESTIONS AND ANSWERS

### Operator

We will now begin the 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.

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

At this time, there is no question. So, this concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Rauber for any closing remarks. Go ahead.

### Jorge Rauber

Sorry. I see that there is a question from Frank McGann waiting for an opportunity to ask a question.

### Operator

Yes. I am sorry. I didn't see him. Okay. The next question is from Frank McGann from Bank of America. Go ahead.

### Frank McGann

Hi. Excuse me. Good afternoon. Just one quick question. The presentation is very clear and complete. At the end, you mentioned something would be down 40%, 50%<sup>1</sup>. I just wanted to check what that referred to.

### Fernando Bonnet

Yes (See Note to Transcript above). It is the impact that we are seeing in our Energía Base EBITDA.

### Frank McGann

Okay.

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<sup>1</sup> **Note to Transcript:** There was a miss understanding between the question and the answer. The phrase that the question referred to was the following (see above in the transcript): "As a consequence of these changes, we expect a reduction in our legacy EBITDA of 15%, and with this reduction, the Energía Base in our EBITDA for 2020 will drop from 40% to 36%". The phrase "legacy EBITDA" is here used as a synonym of Energía Base (the regulatory framework applicable to generation units constructed before 2013). Energía Base's EBITDA percentage was calculated as the estimated 2020 Energía Base EBITDA divided by estimated 2020 Total EBITDA.

**Fernando Bonnet**

We have seen an impact of around \$38 million in our EBITDA for this new resolution.

**Frank McGann**

Okay, perfect. Okay. Thank you very much. That's it.

**Operator**

Go ahead, Mr. Frank.

**Frank McGann**

No, no. I am finished. Thank you very much. That was very helpful.

**Operator**

Okay. Again, if you want to ask a question, please press star (\*), then one (1).

Okay. I would now like to turn the conference back over to Mr. Rauber for closing remarks.

**CONCLUSION****Jorge Rauber**

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

**Operator**

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