

Central Puerto S.A.

1Q 2021 Results Conference Call

Thursday, May 13, 2020, 12:00 P.M. Eastern Time

CORPORATE PARTICIPANTS

Fernando Bonnet – *Chief Executive Officer*

Enrique Terraneo – *Chief Financial Officer*

Milagros Grande – *Financial Manager*

Nicolas Macchi – *Investor Relations Officer*

Operator

Good morning, and welcome to the Central Puerto Conference Call following the results announcement for the quarter ended on March 31, 2021. [Operator Instructions] 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 be aware that all financial figures were prepared in accordance with the IFRS and are stated in Argentinian pesos unless otherwise noted. It is worth noting that the financial statements for the quarter ended on March 31, 2021, include the effects of the inflation adjustment. Accordingly, the financial figures mentioned during the call, including the data from previous periods and the growth comparisons, have been stated in terms of Argentine pesos of the end of the reporting period.

Also, please note that the 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.

To follow 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 to simplify the discussion.

On the call today from Central Puerto is Fernando Bonnet, Chief Executive Officer; Enrique Terraneo, Chief Financial Officer; Milagros Grande, Financial Manager; and Nicolas Macchi, Investor Relations Officer.

And now I would like to turn the call over to Fernando Bonnet. Mr. Bonnet, thank you. You may begin.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Thank you very much. Good morning and welcome.

It's a pleasure for me now as a CEO join you today with our management team from Buenos Aires to report on the results of the first quarter 2021 and then answer any question you may have. I would like to begin today's call analyzing the development of the first quarter, commend on the progress of our expansion project and analyze the operating figures of the quarter. Milagros will present the recent financial news and results.

First of all, and going now to page three, as you may recall, during 2020 the measures adopted to prevent the spread of the COVID-19 virus have an impact on the progress of project Terminal 6 new cogeneration unit.

During the quarter we have continued with the construction of the new Terminal 6 San Lorenzo cogeneration plant and reached a progress of 92%. It's important to remark that since November 2020, the plant obtained a partial commissioning of its gas turbine of 269 MW selling energy under the spot market regulation.

Once the COD for the full project is achieved, which is expected for the third quarter 2021, the plant will be remunerated under a 15-year PPA on the energy side and sales team to a private off-taker and then another 15-year contract.

Going now to our key performance indicators for the quarter. As you can see on page four, energy generation during the first quarter was 3,479 GWh of electricity, 11% lower than the same period of 2020.

This was mainly due to a 306 GWh drop in generation from our Piedra del Aguila hydro plant related to lower water inflows and 180 GWh decline in our thermal generation mainly due small failures in our Puerto's combined cycle and some of our stream turbines, partially offset by the generation from the new wind farms, Manque, Los Olivos and La Genoveva I renewable energy increased 56 GWh compared to the same quarter of 2020.

Steam production during the fourth quarter increased 3% due to a good availability and generation of our Lujan de Cuyo cogeneration plant.

Regarding the availability of thermal units, during the first quarter 2021, it reached 89% as compared to 93% during the same quarter of 2020. This was mainly due to small failures in Puerto's combine cycle during Mach 2021 and some of the steam turbines of the Puerto and Lujan de Cuyo plants. Still this indicator remains significantly higher than the market average availability for thermal units, which was 81% for the same period according to data from CAMMESA.

Finally, regarding to spot market tariff scheme, it is worth to mention that we have several calls and meetings with the Sub-Secretary of Energy, in which we discuss the necessity and the urgency to have an adjustment in these remuneration scheme, which was phrased since February 2020. And we are expecting to have news in this regard in the next weeks.

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

Milagros Grande - Financial Manager, Central Puerto S.A.

Thank you, Fernando. I will start referring to some recent financial news for the company and then comment on the results of the first quarter of 2021.

On February 25, the Central Bank decided to extend the FX regulatory restrictions established by Communication 7106 until December 31, 2021 through the issuance of Communication 7230. The installments, under the Syndicate loan signed with Citibank., JP Morgan Chase Bank and Morgan Stanley Senior Funding for the acquisition of the Brigadier Lopez Thermal Plant, maturing on June, September and December 2021 are under the scope of such regulation. Therefore, and as of the date of this press release, we are maintaining negotiations with these banks to reschedule those installments.

Moving now to the results for the quarter. As you can see on page five, our revenues were 10,164 million pesos as compared to 11,419 million pesos during the first quarter of 2020. This decrease was mainly due to a 31% decrease in Spot Sales/Energía Base which totaled 4,166 million in the first quarter of 2021 as compared to 6,050 million in the first quarter of 2020, mainly due to the lack of monthly price adjustment of Resolution 31 instructed by the Secretariat of Energy on April 8, 2020 and to a lesser extent to small failures in Puerto's combined cycle and some of its steam turbines. This was partially offset by a 13% increase in sales under contracts, which amounted to 5,444 million pesos during the first quarter of 2021, as compared to 4,833 million pesos in the first quarter of 2020, mainly due to the new wind farms mentioned above and a 9% increase in the steam sales, which totaled 281 million pesos in the first quarter of 2021 compared to 258 million pesos in the first quarter of 2020, as the steam production increased 3% in the quarter.

The gross profit was 4,973 million pesos in the first quarter of 2021 compared to 6,686 million pesos in first quarter of 2020. This decrease was due to the above-mentioned variation in revenues and a 10% increase in the costs of sales that totaled 5,191 million pesos compared to 4,734 million in the first quarter of 2020. This increase in the cost of sales was primarily driven by a 43% increase in purchases of materials and spare parts which totaled 1,345 million pesos during the first quarter, as compared to 942 million pesos in the first quarter of 2020, and also a 6% increase in costs of production, which totaled 4,052 million pesos in the first quarter of 2021, as compared to 3,806 million pesos in the first quarter of 2020 mainly due to the increase in depreciations of 349 million pesos and an increase in maintenance expenses of 173 million pesos.

Given the current scenario, no price adjustment for units under Energía Base framework, the company made a strong review on expenses. Therefore, administrative and selling expenses were reduced in 11% in real terms, saving more than 100 million during the first quarter of 2021 as compared to the same period of 2020.

Gross profit margin was 49% during the first quarter of 2021, as compared to 59% in the first quarter of 2020.

Going to page six, we can see the changes in our EBITDA, which is 9,679 million in this quarter, compared to 10,848 million pesos in the first quarter of 2020. In addition to the variation in gross profit mentioned this was mainly due to a 17% decrease in foreign exchange difference on operating assets, mainly related to FONI trade receivables that generated a 2,862 million pesos gain during the first quarter of 2021, compared to 3,461 million pesos during the first quarter of 2020.

It is worth mentioning that during 2020, CAMMESA has completed all scheduled payments of principal and interest in accordance with the FONI agreement for Termoelectrica Jose de San Martin and Termoelectrica Manuel Belgrano. This was partially offset by a higher depreciation of the Argentine pesos. As reference, during the first quarter of 2021, the Argentine pesos depreciated 9.28%, as compared to 7.77% during the first quarter of 2020.

Variation of gross profit was also due to a 44% decrease in interest from clients which totaled 613 million pesos during the first quarter of 2021, compared to 1,094 million pesos in the first quarter of 2020, mainly related to the total collection of the FONI Agreement for San Martin and Belgrano during 2020. Well, this was partially offset by an increase in depreciations and amortizations that totaled 1,913 million pesos during the first quarter of 2021, as compared to 1,657 million during the first quarter of 2020. During this quarter, no impairment accounted compared to the 1,105 million pesos of the first quarter of 2020.

Going to page seven, the consolidated net income was 640 million pesos compared to 1,364 million pesos in the same period of 2020. In addition to the factors mentioned factors before, the net income was positively impacted by a higher financial income which amounted to 422 million pesos during the first quarter of 2021, compared to 186 million pesos in the first quarter of 2020 and a lower income tax expenses that amounted to 450 million pesos in the first quarter of 2021, compared to 2,325 million in the first quarter of 2020. Also, the net income was negatively affected by higher financial expenses that amounted to 7,012 million pesos in the first quarter of 2021, compared to 6,213 million pesos in the first quarter of 2020, mainly due to higher foreign exchange difference on loans, most of which are denominated in US dollars.

Additionally, the share of profit of associates was 267 million pesos loss during the first quarter of 2021 compared to 77 million gain during the first quarter of 2020, mainly due to lower results from the operations of Ecogas due to lack of tariff adjustments for the natural gas distribution businesses. Finally, the gain on net monetary position totaled 181 million pesos during the first quarter of 2021, as compared to 447 million pesos in the first quarter of 2020.

Going to page eight, we can see our cash flow for the first quarter ending on March 2021. Net cash provided by operating activities was 4,021 million pesos. This included 1,109 million in collections from Vuelta de Obligado installments. Also net cash provided by investing activities was 303 million pesos. Additionally on the financing side, 4,439 million were used for bank and investment accounts overdrafts payments of 1,171 million, long-term loan of 2,228 million pesos and interests and other cost loans for 1,041 million pesos.

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

Operator

[Operator Instructions] Our first question comes from the line of Frank McGann with Bank of America. You may proceed with your question.

Q: Okay, thank you very much. I wondered, in terms of the legacy price adjustment that you said you've been discussing with the Secretary of Energy and others have suggested that as well, it sounds like you're fairly confident, I guess. I'm just wondering if you have any feel for how material that could be. How it might be structured, particularly in light of what we saw with distribution increase that was granted recently, just wondering, how much risk maybe there is associated with getting it?

And then secondly, just a couple, more mundane things just in terms of the current hydro situation for Piedra del Aguila and Puerto plant the issues that you had with it, if you could provide a little bit more detail maybe and if those are completely resolved at this stage?

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Okay, okay. Thank you, Frank, for your questions. And in terms of the tariff increase in resolution 31, as you mentioned, and we talked in the call, we had several meetings in last year with the Sub-Secretary of Energy, Federico Basualdo and we have additionally meetings with Darío Martínez, which is the Secretary of Energy. In those meetings, as we mentioned, we discussed about the urgency and intensity of this adjustment. They really understand the situation. They agree with our situation. They want to move in the same or try to move together the difference in tariff increases, not taking one by one, the one to solve the increases as a whole and they work on the gas sector, they work on the electricity distribution sector, as we mentioned. And the last one is our increase.

We talked with them in order to establish the resolution 31, which in fact establish a mechanism to make the adjustment, establish a mechanism which is related to inflation. And we think that they believe that this breakup is not the way, we had several – in an automatic way, they are not so – or they are not planned to make that automatic, which is establishing the resolution. They are thinking more in an adjustment, as in the old days that you'd receive an adjustment once a year in order to cover inflation. And I think this is and this is that. The only thing that is pending is to have the final number and to establish when it is going to apply.

We talked with them in order to establish a retroactive effect from February and I think they are willing to accept that, to establish this new type of adjustments in February but we don't have the final number yet. Of course we are – in the case of the generation it is – the interest is that an increase of 30% to say so in the generation in terms of resolution 31, the impact on the tariff, the final tariff is very, very small, less than 1.5%. So, I think there is no restrictions to do it, they want to – as I mentioned they want to move in line with the first solve the distribution and gas issues and then started working on – or closing the resolution 31 increase.

We are confident that when we move forward -- and that they are going to move forward in that way to perform an increase would cover at least part of inflation that we suffer, but we don't know yet the final number. We don't have the final number coming from them. We – perhaps you, you have different information coming from the news but we don't have the final number coming from them. They asked for calculations surrounding 29% increase, making numbers around that, but we don't have the formal confirmation that this will be the number yet. So, this is the information that we have until now.

And in terms of the other -- your question, which is the situation about Piedra del Aguila, the situation is more less the same as last year. We have a dry period in the inflows, in the water inflow, we have less water inflow than the normal, the median of the last 15, 20 years. We are having very dry years with Piedra del Aguila, so this explains why the production or regeneration is Piedra del Aguila is less than in the past. We don't know yet its attendance, we still think that this is a dry period only, but we are we are analyzing with the specialist what perhaps the next year will bring with in terms of inflows, water inflows for Piedra del Aguila. But it's only that, we don't suffer any problem in the turbine, we don't suffer any restraints or constraints in terms of lines, but it is only about watering inflows.

And in the case of Central Puerto, as you asked, additionally, in the case of Central Puerto, we suffered different small failures in our combined cycle here in Buenos Aires, all these failures are, as I mentioned, are small problems related to parts, related to the boiler, some failures in the boiler, but nothing that are extremely important than takes a few days in order to come back online. That was what we suffered that reduction -- in the production but it is not related to the dispatch, the combined cycle is very efficient. So every time that is available, this combined cycle is on dispatch, but we suffered, as I mentioned, several small failures during the first quarter. Right now the combined cycle is operating normally without any problems. So we don't think that these small failures will be happening again in the near future.

Q: Okay, great. Can I just follow up -- you mentioned that an estimated 30% increase in the legacy on tariffs would be what percentage to the legacy prices would be what percentage of the final tariff? 1.5 is what you said?

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

No, no, no, no, this is the impact that if they apply -- we don't know the number yet as I mentioned. We have assumed perhaps listen some news in the press. And as I mentioned, the figures aren't finalized yet, calculations to CAMMESA regarding the 29% increase, 29. But I mentioned that this 29 -- if they apply this 29, the impact on the final tariff is very small, is less than 15%. That is what I meant.

Q: Okay, yeah. That's what I want. Okay, thank you very much.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

You're welcome.

Operator

[Operator Instructions] Our next question comes from the line of Roman Rossi Lores with Balanz Capital. You may proceed with your question.

Q: Hi, everyone. Thank you for taking my question. I would like to ask you about Terminal 6. You mentioned that you have reached 92% completion. So what's the remaining CapEx for this? And then another question, are you planning to tap the market during 2021? Thank you.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Thank you for your question. Yes, we are in 92%, the remaining CapEx for Terminal 6 -- the remaining CapEx is around \$15 million. And in the second -- regarding to the second question, we are not -- right now, we are not thinking to go back to the market in 2021, because we are not having any additional CapEx, big CapEx in this in this year. And we are restructuring our debt, our short-term debt because the resolution of the central bank but we are restructuring, in fact. So, we don't think by now, of course, perhaps some opportunities may appear, but we are not seeing right now going to the market.

Q: So, do you have any updates on the syndicate negotiations?

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Yes, we are discussing the extension regarding to the 60% of the last three installments and we are in the process with the banks. We have disposed it or not closed, but we have certain advantages.

Q: Okay. Thank you very much.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

You are welcome.

Operator

Our next question comes from the line of Alan Ross. You may proceed with your question.

Q: Hello. Thanks, everyone. My question is two questions, mainly regarding the resolution 31/20. First thing is, are you -- is there a strategy in discussion? Is it going to be like an increase to the fixed price for another term or can it be like a variable price? And then the second thing is there any deadline, because you said we don't have any information from the parties? Is there like a timeframe that they have to provide us, either yes or no, there could be an increase in the price or definitely no, for a deadline? And then, if there is any update, do I see or where will we see that? Would it be on the news on the website as a news posting? And that's it. Thanks.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Okay, thank you for your question. As we have been talking with them and as we see the things going on, we don't see a new scheme. We see an increase on that fixed price, at least for this next month, I think. That will be -- the new opening of discussion about the new increase will depend on the on the inflation but I see a summation, a new fixed price for a period of time, I

don't know for how many months but that will be depending on the inflation, how it is going on. If we have a higher inflation, I think, we need to discuss a new increase but we need a new resolution. This will – as in the past, all this increasing in the resolution or in the support scheme came by resolution of Secretary of Energy, it is not like an automatic increase.

So, as we see the situation right now, this increase will be for a period, I don't know for how many months but that will be depending on the inflation how it is going on. If the inflation is getting smooth, smoother than now, which is higher, perhaps will maintain this increase for – perhaps until the elections. And then if the inflation goes up, we need to discuss new adjustments or we will request that at least. And I think the other question was how you – or how we are going to present that increase, I think it will be public because it's a resolution but we can also spread something on our website also, yes, or at least on a – perhaps on a relevant release or press release, yes when it happens.

Q: Okay. Thank you very much.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

You're welcome.

Operator

This concludes our question and answer session. I would like to turn this conference back over to Mr. Bonnet for closing remarks.

Fernando Bonnet - Chief Executive Officer, Central Puerto S.A.

Well, thank you everyone for your interest in Central Puerto. We encourage you to call us for any information that you may need. Have a great day. Thank you.

Operator

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