



Central Puerto

Central Puerto

3Q2020 Results

November 12, 2020 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jorge Rauber – *Chief Executive Officer*

Fernando Bonnet – *Chief Operating Officer*

Milagros Grande – *Financial Manager*

Tomás Daghlian – *Investor Relations Officer*

PRESENTATION

Operator

Good morning and welcome to the Central Puerto conference call following the results announcement for the quarter ended on September 30, 2020. 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. After today's presentation there will be an opportunity to ask questions. Please note that 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 through the website 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 IFRS and are stated in Argentinean pesos, unless otherwise noted. It is worth noting that the financial statements for the quarter ended on September 30, 2020 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 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. 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 in order to simplify the discussion.

On the call today from Central Puerto is Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Operating Officer; Milagros Grande, Financial Manager; and Tomas Daghljan, Investor Relations Officer.

I will turn the call over to Jorge Rauber. Mr. Rauber, you may begin.

Jorge Rauber

Thank you very much. Good morning and welcome. I would like to begin today's call analyzing the developments of the third quarter, comment on the progress of our expansion projects, and analyze the operative figures of the quarter. Fernando will present the recent financial news and results of the quarter. And finally, we'll answer any questions that you may have.

As you know, the COVID-19 crisis has affected almost all the world and among other consequences, electric energy demand in Argentina. However, during the third quarter, we have seen some degree of recovery, thanks to the partial flexibilization of the quarantine.

As you can see on page 3, electricity demand decreased just 2.2% during the third quarter of 2020 as compared to the same period in 2019. As a reference, during the second quarter of 2020, electricity demand decreased 5.5% as compared to the same period of the prior year. We believe that this trend may consolidate in the future quarters. Nonetheless, as you may recall, it is worth noting that the decrease has a less than proportional impact in the income of generation companies.

In the case of renewable energy units, they are unaffected since they have dispatch priority. So they can

sell all the electricity that they generate. In the case of thermal units, they have a high proportion of their income associated to fixed power remuneration, which is not related to the energy production of the unit. Finally, when demand decreases, the units that stop generating electricity first tend to be the older inefficient ones, which are remunerated under Energia Base framework as compared to the new efficient ones that have a higher remuneration to contract, also known as power purchase agreements, or PPA.

Going now to page 4. As you may recall, the measures adopted to prevent the spread of the COVID-19 virus had an impact on the progress of our projects and their construction at La Genoveva I wind farm and Terminal 6 new cogeneration unit. Regarding the La Genoveva I, we are pleased to announce that as of today we have 20 of the 21 windmills in operation and we expect to reach the commercial operation date, or COD, for the complete project during this month. Once the COD is reached, this plant will be remunerated under a 20-year PPA entered into with CMMESA. This will be the seventh wind farm that we commissioned since 2016, reaching a total installed capacity of 374-megawatt of wind power.

During the quarter, we have continued with the construction of the new Terminal 6 San Lorenzo cogeneration plant. For this month, we expect to achieve the partial commissioning of the 284-megawatt gas turbine in an open cycle configuration for operation with natural gas, an important milestone for the project, which will allow us to sell energy under the spot market regulation. Once the COD for the full project is achieved, which is expected for the first half 2021, the plant will be remunerated under a 15-year PPA on the energy side and also sell steam to a private off taker under another 15-year contract.

Going now to our key performance indicators for the quarter, as you can see on page 5, energy generation during the third quarter was 3.9 terawatt hours of electricity, 1% lower than the same period of 2019. This was to a large extent to the 21 % drop in duration from our Piedra del Aguila hydro plant related to lower water availability and was partially offset by the duration from the new wind farms, La Castellana II, La Genoveva II, Manque and Los Olivos and the new Lujan de Cuyo cogeneration unit.

Steam production during the third quarter 2020, which was generated by the new Lujan de Cuyo cogeneration unit reach its expected capacity. In the third quarter of 2019, the steam production had a decrease due to scheduled halt of the old cogeneration unit of the Lujan de Cuyo plant in order to allow the necessary civil works in the steam pipeline for the connection of the new cogeneration plant, which started operations in October 5, 2019. Therefore, due to this effect, the output of the third quarter of 2020 was 31% higher than the third quarter of 2019, reaching normal levels.

Regarding the availability of our thermal units in the third quarter 2020 to reached 89% as compared to 94% during the third quarter 2019. It was mainly because of the failure of the main transformer of the Siemens branded combined cycle of the Lujan de Cuyo plant occurred in April 12, 2020, which returned to service on July 16, 2020, and to a lesser extent to smaller events in some of the steam turbines of the Puerto and Lujan de Cuyo plants. Still, this indicator remains higher than market average availability for thermal units, which was 84% according to data from CMMESA.

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

Fernando Bonnet

Thank you, Jorge. I will first refer to some of the recent financial news for the company and then comment on the results of the third quarter of 2020. As you can see, on page 6, on August 31st our subsidiaries CP Manque and CP Los Olivos issued two green bond in the local security market for the equivalent of \$50 million, replacing outstanding bridge loans with Central Puerto. The placement consisted in a dollar-link series Class 1, integrated in Argentine pesos, for \$35 million with a maturity of three years, and a series in Argentine pesos with a maturity of one year for the equivalent of US \$15 million.

The issuance was recognized by Fix Ratings, an affiliate of Fitch Ratings, with the Green Bond rating BV1 and the bonds were included in the Panel of Social, Green and Sustainable Bonds at Buenos Aires security market, BYMA, being the first one to be included in this panel since its issuance. This is an important milestone for the company and the Argentine security market and we look forward to continue with the development of these kind of investment alternatives for which we expect a growth in demand.

Going now to the results for the quarter. As you can see on page 7, our revenues were ARS \$9.1 billion as compared to \$10.6 billion during the third quarter of 2019. This decrease was driven by the discontinuation of the fuel purchases operations that we did during 2019, due to the new regulations that centralized the fuel purchases for all generators in CAMMESA. This effect represent a \$1.7 billion variation during the quarter compared to the same period of the prior year. Excluding this effect, revenues were \$8.9 billion compared to \$8.7 billion in the third quarter of 2019. This increase was mainly driven by an increase in sales under contracts, which amounted to \$4.3 billion during the third quarter of 2020 as compared to \$3.5 billion in the same period of the previous year, mainly due to the new Lujan de Cuyo cogeneration unit, which started operations on October 2019. And the wind farms La Castellana II, La Genoveva II, Manque and Los Olivos, which started operation during June, September, December 2019 and February 2020, respectively.

And two, an increase in the steam sales that during the quarter totaled \$330 million from the new Lujan de Cuyo cogeneration plant compared to \$98 million in the third quarter of 2019. This increase was partially offset by the decrease in sales under Energia Base framework of \$1 billion, mainly driven by a decrease in prices established by the Resolution 31 in force since February 1, 2020 and the suspension of the monthly price adjustment procedure of such resolution instructed by the Energy Secretary on April 8, 2020.

The gross profit was \$5.5 billion during the third quarter of 2020 as compared to \$6.3 billion in the same period of 2019. This was due to a variation in revenues mentioned before and was partially offset by a 13% reduction in cost of sales that totaled \$3.6 billion compared to \$4.4 billion in the same period of 2019. The decrease in the cost of sales was primarily driven by a 56% decrease in the purchase of fuel and related concepts due to discontinuation of this operation according to the new regulations.

Given the current scenario, no tariff adjustment for units under Energia Base framework, the company made a strong review in order to maintain non-fuel related costs of production as low as possible. As a consequence, administrative and selling expenses were reduced 26% in real terms, saving more than \$208 million during the third quarter of 2020 and as compared to the same period of 2019. Gross profit margin totaled 60% during the quarter as compared to 59% in the same period of 2019.

Going to page 8, we can see the changes in our EBITDA, which was around \$7.7 billion in the third quarter of 2020 compared to \$19.3 billion in the third quarter of 2019. In addition to the variation in gross profit mentioned before, this was due to a reduction of \$11.3 billion in other operating results, mainly due to a reduction in foreign exchange difference gain mainly related to the dollar-denominated FONI [ph] trade receivables that generated a \$1 billion gain during the third quarter of 2020 compared to \$8.5 billion during the third quarter of 2019 when the Argentine peso registered a depreciation of 36%, mainly related to the outcome of the primary elections in 2019. And \$4.8 billion in a one-time interest registered in the third quarter of 2019 associated with 2013 to 2016 CAMMESA trade receivables cancellation.

Going to page 9, the consolidated net income was \$2.3 billion compared to \$4.8 billion in the same period of 2019. In addition to the factors mentioned before, the net income was negatively affected by lower financial income, which decreased \$270 million due to a lower foreign exchange difference on financial assets denominated in US dollar, partially compensated by a higher mark-to-market gain, and positively impacted by lower financial expenses that decreased \$8.8 billion in the third quarter of 2020 as compared

to the same period of 2019, mainly due to a lower financial exchange difference on loans, most of which are denominated in US dollars. Additionally, the results on net monetary position was \$300 million in the third quarter of 2020 compared to \$1.1 billion in the third quarter of 2019.

Finally, the share of profit of associates was \$486 million lower during the third quarter of 2020 as compared to 2019, mainly due to lower results from the operation of natural gas distribution associates related to a lack of tariff adjustment for the natural gas distribution business in 2020.

Going to page 10, you can see our cash flow for the nine-month period ended on September 2020. Net cash provided by operating activities was \$12.8 billion. This includes \$4.6 billion in collection from FONI and CVO instalments. The cash flow from operation was partially offset by \$8.5 billion capex disbursement for the expansion projects and \$4.1 billion used in short-term investments.

Additionally, on the financial side, \$5.6 billion were used for principal and interest debt services, which was partially offset by \$3.7 billion in new loans received during the period, mainly related to the green bond issuance mentioned before.

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 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.

Our first question today comes from Frank McGann with Bank of America.

Frank McGann

Thank you and good day. Two questions, if I could. One, I was just wondering if you could speak about the trends you're seeing in the third quarter in terms of demand, especially—not so much demand but your actual generation—especially related to hydro and the hydro conditions and how you're seeing those for the fourth quarter? And secondly, I was just wondering if you could comment on how the cash flow payments are in terms of timing coming from CAMMESA currently?

Jorge Rauber

Well, thanks, Frank. The first thing I want to mention is that demand is still a bit lower than the one of the prior year. It's mainly driven—mainly this decrease was compensated by a strong increase in terms of residential demand. The customers are consuming 10% above the level they had last year. And what is affected is industrial and commercial demand at the same extent. Regarding what we are seeing is very [audio drops] this year. In fact, we had a generation, which is 21% lower than normal level for hydro [indiscernible] hydro power plant. The situation is more in terms of demand. We are seeing some progress and demand is kind of lowering with the flexibilization of the quarantine, but it's still lower than we had last year.

For sure we expect as the changes—I mean, the government introduced in terms of regulation now to kind of quarantine now but we've seen some increase, but the effect will still be there for a couple of months, at least

Fernando Bonnet

And let me answer the second one. In terms of payment, CAMMESA, after the government increased

the budget for the subsidies in terms of energy, the payment delays are lower. We have a reduction in days of delay. Before the increase in the budget, we had around 44 days of delayed and right now we are in 30 days of delay in payment. So the payments are [audio drops]. Of course, we are still have that 30 days of delayed, but we are better than one month or two months ago. And the government says that want to maintain that, not increase that quantity of days of delay. We are receiving more money more flow and I think with that, we can still continue with this delay until the government can make the adjustment that they are saying will happen in 2021.

Frank McGann

Okay. Thank you very much.

Operator

Again, if you have a question please press star then one. Our next question comes from Matias Wesenack with AR Partners.

Matias Wesenack

Hi. This is Matias Wesenack from AR Partners. Thank you for taking this question. I have two, in fact. The first one is, how efficient we expect T6 to be as an open-cycle? Do we expect it to have a high dispatch factor? And the second one is, if you could give us more color on capital expenditures in the remaining of this year and 2021? Thank you.

Jorge Rauber

Well, I will answer the first, yes, I will answer the first question for sure. The operation in open cycle will have low dispatch, the demand is low because of the coronavirus crisis. And the demand [audio drops] offer we have on the renewable side, so we expect a very low dispatch. As was mentioned, most of the remuneration of the units are based on availability, not on dispatch. So, this unit operating in open-cycle configuration, I think, will contribute with a capacity payment until we the combined cycle is completed which is expected to occur during the first half of next year.

And Fernando, answer the second one, please.

Fernando Bonnet

Thanks, Jorge. In terms of capex, the only remaining we have already under construction is Terminal 6 as Jorge mentioned. There we have for the last quarter 2020, the US \$27 million in capex and the remaining portion of the capex for the first quarter 2021 is expected to be US \$ 22 million. In terms of the renewables, the last wind farm under construction, La Genoveva I, which is starting operations this month and the last quarter of this year we have US \$15 million. I think the remaining portion of that amount is around US \$6 million. This is for expansion and the normal ones that we have in terms of maintenance around US \$15 million per year.

Matias Wesenack

Thank you.

Fernando Bonnet

You're welcome.

CONCLUSION

Operator

This concludes our question and answer session. I would like to turn the call back over to Mr. Rauber for any closing remarks.

Jorge Rauber

Okay. Thank you to 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

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