

Central Puerto S.A.

CEPU Earnings Call 2Q 2018

August 14, 2018 at 12:00 p.m. 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 second quarter ended June 30, 2018. 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 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 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. In addition, all financial figures were prepared in accordance with the IFRS and are stated in Argentinean pesos, unless otherwise noted.

On the call today from Central Puerto is Jorge Rauber, Chief Executive Officer, and Fernando Bonnet, Chief Financial Officer.

Now, I'll turn the conference over to Jorge Rauber. Mr. Rauber, you may begin.

Jorge Rauber

Thank you and welcome, everyone. We are joining you this morning with our Executive Team from Buenos Aires, Argentina to report on our second quarter 2018 and to answer any questions.

Following a very good first quarter for this year, we continued to develop our 794 megawatt expansion plan with advances in the construction of our co-generation and renewable projects. Even in a challenging environment, our solid balance sheet, good operational results, and a prudent financial profile set the ground for our continuous capacity expansion during this year.

Let's talk about our thermal generation first. As you may recall during 2017, Central Puerto was awarded with the new co-generation projects Luján de Cuyo and San Lorenzo that will add more than 420 megawatts to our installed capacity. During the second quarter, we arranged the provision of the main components needed for these projects, and we began the civil works for the construction. I am pleased to confirm that both projects are on-time and within budget. Regarding the last hike in the exchange rate, we expect that our thermal projects will not be negatively affected from this devaluation, since part of the capex for the construction of the new plants are denominated in Argentinean pesos, which may result in a lower capex measured in US dollars.

Finally, as for our current thermal units, during this quarter we performed the long-term programmed maintenance in our common cycle, which resumed its operations at full capacity during the first weeks of June. This scheduled maintenance included the replacement of key components such as the rotor of the gas turbine number 11, for new ones, and complete upgrade of the control systems of the combined cycle. The costs of these works were covered by the long-term service agreement that we have with the supplier of the equipment, and as a consequence, no significant capital expenditure was made by Central Puerto.

These operations temporarily reduced the availability and generation capacity of this plant during the second quarter. As a consequence, our availability factor from thermal units dropped to 78%, compared to 88% in the second quarter of 2017. This level, however, is similar to the 79% average availability of the market for thermal units during the same period, according to data from CAMMESA.

As for our generation during the second quarter of 2018, energy generation from our continuing operations decreased 18% to 3,145 GWh, compared to the second quarter of 2017, mainly affected by a 37% decrease in thermal generation explained by the scheduled maintenance in Central Puerto common cycle. The temporary impact of the thermal production was partially offset by an increase in hydro generation, 118% due to greater water inflow. We expect that our generation will recover now that our Puerto common cycle is online again.

As for our renewable projects, I would like to give you a brief overview of the operational progress in our renewable projects and opportunities coming next in the renewable sector. We recently completed the construction of La Castellana I and Achiras I wind farms, and they are now running the test prior to obtaining the commercial operation approval. We expect the commercial operation date to be during August and September, respectively, in accordance with the terms agreed with CAMMESA in the Power Purchase Agreements (or PPA) contracts.

In addition, we continue delivering on capacity growth. On July 27th, we signed the PPA contracts for the project La Genoveva I, awarded under Round 2 of the RenovAr Program. We expect to start the construction of this wind farm that will have an 87 megawatt capacity during the first quarter of 2019, and we expect to end the construction during the second quarter of 2020.

Finally, under the term market for renewable energy framework, we have recently been granted the priority access to grid to build three new additional wind farms, Achiras II, La Castellana II, and La Genoveva II, which are near to the wind farms that we have mentioned before that we are developing under the RenovAr Program. These new plants will allow us to sell 137 megawatts of new power capacity directly to large private users.

Looking forward, during the second half of the year, we will continue to evaluate both organic and inorganic growth opportunities. 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 of the Company to consistently increase installed capacity, satisfying the growing demand with our assets and quickly adapt to the new rules of the changing environment.

Regarding the last issue, as you may know, on June 22nd, President Macri designated a new Energy Minister, Javier Iguacel, with whom we had the chance to meet last week. According to what he expressed to us and in several interviews to the media, we expect the regulation to move towards the efficiency in energy generation, the reduction of the costs of fuel, with less government intervention in the sector and the development of a competitive free-market where private players will have the leading role. We have already seen some steps in this direction, such as the reduction of the cost of the natural gas that CAMMESA pays for electricity energy generation and the recent increase in the prices that the end users pay for their electricity consumption, which results in less subsidies from the government to CAMMESA. We think that these changes open new opportunities for Central Puerto, and we are eager to participate in the new challenges to come.

And now, I will turn over to Fernando, who will comment on the financial highlights of the quarter.

Fernando Bonnet

Thank you, Jorge. Results achieved during the quarter proved the resiliency of our business model in

the context of a devaluation of local currency based on the benefits of the dollar-denominated tariff adopted in the sector last year.

With this exclusion, the adjusted EBITDA, was of around 5.6 billion pesos which compared to that of the second quarter 2017 shows a significant increase of 700%. That increase was mainly generated by a 4.5 billion pesos on interest and foreign exchange difference associated with the full amendment as Central Vuelta de Obligado trade receivables denominated in US dollars. A 53% increase in revenues that totaled 2.1 billion pesos, that rise in revenues shows the full impact of the tariff increase established in November last year; an increase of almost two points in the gross profit margin mainly driven by the exchange rate effect in the production costs that were mostly denominated in local currency.

Additionally, it is worth mentioning that these results were achieved despite a temporary decrease in production of 18% explained by Jorge before. This was by the scheduled maintenance of Central Puerto main combined cycle plant that started in mid-March and was finally completed on June.

In order to have a more precise estimation of our operational cash flow generated during the period, it's important to consider the FONI collections. During the second quarter, we collected 108 million pesos from the FONI collections associated with the San Martín and Belgrano Plants. Regarding the collections from Central Vuelta de Obligado's trade receivables, CAMMESA is currently working on the formal commercial documents.

As our financial position, we maintain a solid cash balance with [indiscernible] we totaled approximately 2.1 billion pesos for Central Puerto as an individual entity, and 3.3 billion pesos on a consolidated basis.

During the second quarter, we received dividends from TGM and Inversora Gas Cuyana for 650 million pesos. On the other hand, in the May period, we paid \$1.1 billion dollars to our shareholders as dividends.

On the debt side, financial debt was almost non-existent for Central Puerto as an individual entity, while CP renewables and its subsidiaries, which holds the renewable projects, received from the IFC/IAC the disbursements of \$71 million directly related to the construction of La Castellana I and Achiras I wind farms. As of the end of June, consolidated total debt was approximately \$152 million for these projects.

We believe that our effective capital balance sheet and management sets the ground for a promising second half of the year.

Thank you, and now we invite you for questions and some additional insight.

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 the 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.

Today's first question will come from Frank McGann with Bank of America Merrill Lynch Argentina. Please go ahead. Hello, Frank, your line is open.

Frank McGann

Yes, sorry. Good day, everyone. Thank you very much. Just seeing new generation over the next 6 months or so, 12 months, do you expect for the overall level of generation to go back to say the averages

that you might have experienced in 2017? Secondly, looking towards the next couple of years as the government moves towards what seems to be maybe a more competitive industry with potential changes in how remuneration would be at least for legacy plants, I was just wondering how well-positioned you feel the Company is to go into a market that is more competitive.

Jorge Rauber

Thank you, Frank. I will say in your terms what we expect is not to go back to this patch we had last year. In fact, we anticipate there is a move to grow some more efficient systems. Part of the problem that the system is facing today is that we are still running units that are very old in time. This is why we expect a reduction in the dispatch [ph] of our older units as a norm for the near future. We don't expect to go back, and in fact, what we expect is more a tendency that you had mentioned, a reduction in this patch especially for our most inefficient units. It's a move that the market has to do. We have to reduce inefficiency. We have to promote more efficient generation and this is the moment that the government is quite committed to go ahead with. This is the tendency for the market.

This is a move that we have been expecting for months. In terms of new regulation, our situation at Central Puerto is that we have units that as an average are more efficient than the average of the markets. Independently what specific regulation the government is going to set, what we expect is that Central Puerto is very good positioned to take advantage of that. Our units tend to be more efficient than the normal standard of this market. We see a move in terms of regulation as an opportunity not as a threat.

Frank McGann

Okay. Thank you very much.

Jorge Rauber

Additionally, [indiscernible] core calculation for sure in our combined cycle respect we're going to increase the production in the same levels of the previous year. Of course we are referring to [audio disruption], but for the big combined cycle which was in the maintenance period, for sure we're going to recover the full production and the full capacity dispatch in the next half of the year and next quarters.

Frank McGann

Okay. Great. Thank you very much.

Operator

Our next question comes from Florencia Torres with TPCG. Please go ahead.

Florencia Torres

Hi. Hello. Thanks for taking my question and congratulations for the strong results. Just a follow-up regarding the potential change on the pricing scale for energy to reward efficiency instead of paying for availability. What is the average of inefficiency in terms of capacity that you're estimating of power [indiscernible] or power plant?

Jorge Rauber

Well our estimation is that more or less 40% of the capacity currently in operation is completely inefficient. So this is what we expect to be reduced in the near future. I mean the regulation should move from those old units to most [indiscernible].

Fernando Bonnet

I think Florencia mentioned in our capacity not in the market.

Jorge Rauber

Not in the market. You're mentioning specifically in our case?

Florencia Torres

Yes, in [audio disruption].

Jorge Rauber

I will mark just some units. In Central Puerto is one of the units that is the most at the margin which is unit number 5. In the case of Mendoza, the steam turbines that are very old units in average in terms of capacity 15% more or less of our total capacity should be considered among the inefficient capacity.

Florencia Torres

Okay. Perfect. Thank you so clear.

Jorge Rauber

Okay. You're welcome.

Operator

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

CONCLUSION**Jorge Rauber**

Thank you, everyone, for your interest in Central Puerto and for 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 day.

Operator

The conference is now concluded. We want to thank you for attending today's presentation. You may now disconnect.