



Central Puerto

Central Puerto SA

2Q 2020 Results Conference Call

Thursday, August 27, 2020, 10:00 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 Central Puerto's conference call following the results announcement of the quarter ended on June 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 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 stated in Argentinean pesos unless otherwise noted. It is worth noting that the financial statements for the quarter ended on June 30, 2020 include the effects of the inflation adjustment. Accordingly the financial figures mentioned during the call, including the data from previous periods and growth comparison, have been stated in terms of Argentinean pesos as 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 security laws. 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 from Central Puerto is Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Operating Officer; Milagros Grande, Financial Manager; and Tomas Daghlian, Investor Relations Officer.

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

Jorge Rauber

Thank you very much.

Good morning. I would like to begin today's call analyzing the developments of the second quarter, comment on the advances of our expansion project and analyze the financial results of the quarter and we'll answer any question that you may have.

As you know, the COVID-19 crisis has affected almost all the world, including Argentina. The mitigation measures issued by the Federal Government such as the stay-at-home order quarantine have remained in place, though some degree of flexibilization and exception have recently been approved. As a consequence, as you can see on Page 3, electric energy demand decreased 11% in April and 7.6% in May 2020 as compared to the same month of the prior year. However, demand increased 1.2% in June due to higher economic activity and lower average temperatures. Therefore, during the second quarter 2020, electricity demand decreased 5.5% as compared to the same period of the prior year. Additionally,



in July, demand increased 1.5%. However, it is worth noting that the decrease has a less than proportional impact in the income of the generation companies.

In the case of renewable energy units, they are unaffected since they have dispatch priority, so they can serve all the generated electricity. 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 generation of the units.

Additionally, when demand decreases, the unit that stop generating electricity first tend to be the older inefficient ones. These units receive a lower remuneration on the Energia Base framework as compared to the new efficient ones that have a higher remuneration through contracts also known as Power Purchase Agreements or PPAs.

Going now to Page 4, as you may recall, the measure set up just to prevent the spread of the COVID-19 virus had an impact on the progress of our projects under construction. La Genoveva I wind farm and Terminal 6 new cogeneration unit. In the quarter, we continued with advances in the project under strict health and safety protocols to protect our personnel and the community.

Taking into account the consequences of the quarantine, the Energy Secretariat instructed CAMMESA to extend a new date for the Commercial Operation Date or COD of the projects 185 days regarding the regulatory framework for the Energia Base units.

As we mentioned in our prior calls, on February 27, 2020, the Secretariat of Energy issued Resolution 31, which changed the prices for the units which were set in pesos with a monthly adjustment using a mix between the Consumer Price Index and Wholesale Price Index. However, on April 8, 2020, the Secretariat of Energy in the context of the COVID-19 crisis instructed CAMMESA to postpone until further notice such adjustment. As of today, the mechanism remains suspended.

Finally, regarding our Renewable Energy division on June 24, 2020, the Board of Directors of Central Puerto with the aim of increasing the exposure of the Company to the segment authorized the purchase of the minority shareholder's stake of CP Renovables, holdings. Central Puerto now has 100% stake in the company. CP Renovables owned through a special purpose subsidiaries five wind farms with a total installed capacity of 244 megawatts. All of them are fully operational performing above the expected load factor and have long-term Power Purchase Agreement under which they sell their electricity production. Following the same trend of the rest of the world, renewable energy is rapidly gaining ground in Argentina metrics. In 2018, renewable generation in Argentina represented 5.8% of total production and is expected to increase significantly in 2020, which Central Puerto is one of the leading companies.

Going now to our key performance indicators for the quarter, as you can see on Page 5, energy generation during the second quarter was 2.7 terawatt hours of electricity, 18% lower than the same period of 2019. This was to a large extent due to the Lujan de Cuvo combined cycle which became unavailable in mid-April due to a significant failure in its main transformer. On July 16, 2020, after replacing the damaged equipment with a backup transformer stored in our Buenos Aires plant, the unit became online again.

The downtime implied a reduction of energy generation and power availability, which had a significative economic impact during the second quarter but will be mitigated by a comprehensive operational risk and loss of profit insurance. Due to this effect, energy generation decreased 0.5 terawatt hours in the second quarter 2020 as compared to the same period of the previous year. Additionally, due to the effects of the quarantine, the rest of the thermal units reduced their energy generation to 246 megawatt hours.

On the other hand, renewable energy increased 158 megawatt hours due to the positive impact of the La Castellana II, La Genovava II, Manque, and Los Olivos wind farms. Regarding our thermal units, availability dropped to 82% as a consequence of the damage in the Lujan de Cuyo combined cycle.

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 the results of the second quarter of 2020 as compared to the second quarter of 2019. As you can see on Page 6, our revenues were ARS7.2 billion in the quarter, a 14% decrease compared to ARS8.3 billion during the second 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 represented ARS2.3 billion variation during the second quarter.

Excluding this effect, revenues for the second quarter of 2020 were ARS7.2 billion compared to ARS6 billion in the second quarter of 2019. This increase was mainly driven by an increase in sales under contracts, which amounts to ARS3 billion during the second quarter of 2020 as compared to see ARS0.8 billion in the same period of the previous year, mainly due to the revenues related to Brigadier Lopez power plant, which was acquired in June 2019, the new Lujan de Cuyo cogeneration unit which started operations in October 2019, and the wind farms La Castellana II, La Genovava II, Manque and Los Olivos which started operation during June, September and December 2019 and February 2020, respectively.

This increase was partially offset by a decrease in sales under the Energia Base framework of ARS1.9 billion due to a decrease in prices for units under the Energia Base regulatory framework as published by Resolution 31-2020, in force since February 1, 2020, and the decrease in energy generation and thermal units availability, mainly due to the failure in the main transformer of Mendoza combined cycle as Jorge mentioned before.

Going to Page 7, we can see the changes in our EBITDA which was around ARS7.6 billion in the second quarter of 2020, compared to ARS4.4 billion in the second quarter of 2019. This was due to, first, a 5% increase in our gross profit as compared to the same period in 2019. This was due to the variation in revenues mentioned before and was partially improved by a 28% decrease in the cost of sales that totaled ARS3.4 billion compared to ARS4.7 billion in the same period 2019.

The decrease in the cost of sales was primarily driven by a 79% decrease in the purchase of fuel and related costs due to the discontinuation of these operations in this quarter according to the new regulation. This was partially offset by a 36% increase in non-fuel related cost of production mainly due to an increase in our installed capacity following the acquisition of the Brigadier Lopez plant and the COD of thermal and renewable energy plants.

Gross profit margin totaled 53% during the second quarter as compared to 44% in the same period of 2019. This change was mainly a consequence of the operation of purchase of self-supplied fuel which was enforced during 2019.

Finally, other operating results, net was ARS2.2 billion higher in the quarter, mainly due to the foreign exchange difference of our operating assets mainly driven by Central Vuelta de Obligado receivables due to a 9.3% depreciation of the Argentine peso during the period as compared to a 2% appreciation during



the same period of 2019, which was partially offset by an impairment in Property, Plant and Equipment due to a valuation at fair value of certain gas turbines that we held in storage.

Going to Page 8, the consolidated net income was ARS2.2 billion compared to ARS1.9 billion in the same period 2019. In addition to the factors mentioned before, the net income was mainly affected by higher financial expenses, which increased ARS4.3 billion due to the loans obtained for the thermal and renewable energy expansion projects and acquisition of the Brigadier Lopez power plant, and the lower share of profit associated mainly due to a weaker results from Ecogas.

These effects were partially compensated by a favorable net monetary positions during the quarter resulting in a gain in Real terms, when this situation was the opposite during the second quarter of 2019 and a ARS0.6 billion increase in financial income.

Going to Page 9 you can see our cash flow for the second quarter of 2020. Net cash provided by operating activities was ARS8.2 billion. This includes ARS1.3 billion in collection from CVO installments, which is not contained in the EBITDA.

The cash flow from operations was partially offset by ARS3 billion cap ex invested in the expansion project and ARS4.2 billion used in financing activities.

In recent news, on August, 2020, CNV, the Argentine security regulator approved a sharing program for a domestic bond issuance ("the Coemission") CP Manque and CP Olivos, two wholly owned subsidiaries of CP Renovables for up to \$80 million. This is the first attempt for bond issuance to get long-term financing for these projects.

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

Operator

Thank you. 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 speakerphone, 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.

The first question today comes from Frank McGann of Bank of America. Please go ahead.

Frank McGann

Yes, thank you very much. Just two questions if I could. One, I was just wondering in terms of as you are looking forward, demand seems to be recovering. Are you seeing any kind of mix change that might have an effect on profitability, perhaps in terms of where you are generating or how you are seeing the mix amongst your clients?

Then in terms of payments, how are you seeing your payments from CAMMESA, payments from your customers in general? Are you seeing more delays given the weakness in the economy that potentially affects customer cash flows? Thanks.

Jorge Rauber

Okay, I will answer this question. Thanks, Frank, for it. The first thing I have to say is that, as you mentioned, the demand for electricity has been recovering. In fact, in July, we had 1.5% above the level we had in the same month in the last year, so the demand started recovering.

Obviously, the industrial demand is below the level it had the last year. The increase is mostly driven by the residential demand. What we are operating today is our renewable plants which have priority in terms of the dispatch, so they are unaffected. And we are operating basically our common cycles and our cogeneration plant in Mendoza. Operations has not mainly been affected by the decrease of demand we had in the previous two or three months. Now the demand is recovering.

Probably the most important thing to mention is that our remuneration is not based on dispatch, but mostly on availability, so we don't expect any kind of impact because of any kind of affectation in terms of demand. It is recovering, and if it didn't, we wouldn't have any kind of impact.

The second question you mentioned, payment. Basically, what happened in the market is that the government has intervened, increasing subsidies. Even though the distribution companies are paying below the 100%, they are paying more or less an average 70% of the total bill they are receiving month after month. The government has intervened in order to keep the payment normal, so we have not been affected by the current time since it started. In fact, today we have a payment which is even a little better than the one we have in March, for example.

Frank McGann

Okay. Great. Thank you very much.

Jorge Rauber

You are welcome.

Operator

The next question is from Ezequiel Fernandez of Balanz. Please go ahead.

Ezequiel Fernandez

Good morning everybody. Thank you for the time and the material. I have four questions, if you don't mind. I would like to go one-by-one.

The first one is related to the Lujan de Cuyo incident. I wanted to know if you have any idea about what the recovery you might get from insurance on that in terms of equipment and income loss?

Jorge Rauber

Fernando, do you want to answer?

Fernando Bonnet

Yes. Thank you for asking.

In terms of the insurance, we have an insurance that covers the property loss and the beneficial loss. We are thinking that this is preliminary because we don't have closing the incident yet, but we think that we can cover the new—we are buying a new transformer. We are acquiring a new transformer so we think that we can receive almost all of the amount. We have some deductions of the insurance, but we think that we can cover between 75% and 80% of the cost.

In terms of beneficial loss, we have a deductible there of 30 days, and the total time that the unit was out was around two and a half months or three months, so we recover these additional one and a half month or two months of loss of profit. That is the situation with the insurance.

Right now, of course we need to close the incident with them and so we have a report that says that this was an incident covered by the insurance, but we need to close the incident. I think we are going to do that in the next two months.

And After that, you have some delay in the payment around three months. I think we recovered them perhaps in the next—recover at the end of the year or the beginning of the next one.

Ezequiel Fernandez

Okay, perfect. I don't know if you can comment on a monetary value for all that or if it's too early?

Fernando Bonnet

It's too early. We can do some numbers together. The loss of profit was around US\$6 million on this, the total loss of profit, and the cost of the new equipment is around \$1.6 million.

Ezequiel Fernandez

Okay, perfect. I wanted to know if you have an updated guidance on how much CAPEX is left for La Genoveva and San Lorenzo?

Fernando Bonnet

For La Genoveva, we are almost finished. Perhaps it's around, I don't know, we have this around something like between US\$15 million and US\$18 million, and we are very, very close to finish. In Terminal 6, in San Lorenzo, it's more open because this pandemic issue, also we have an additional cost every day, I don't know, problems in terms of COVID and new regulations, so it is very difficult to say a final number or an exact number, but it will be around I think in a range of \$50 million, \$55 million.

Ezequiel Fernandez

Okay, very helpful.

My second question is related to the Brigadier Lopez. I don't know if you are still committed after everything that has been going on, and if so, when could work start for the closing?

Fernando Bonnet

I don't know, Jorge, if you want to?

Jorge Rauber

Okay. In the first one we are going to—our plan is to finish first the project we have in Terminal 6, which is our priority. We are prominently evaluating the moment to go ahead with the closing of that cycle. We haven't started. We are doing only the preservation of existing assets and waiting for the moment to start. I mean, obviously this situation is not the best one and we are giving priority to closing the plants we have currently in construction.

Ezequiel Fernandez

Okay, thank you. My final question is related to the Central Vuelta de Obligado receivable. Is it fair to say that at the end of the second quarter the outstanding receivable was US\$ 440 million, so to speak?

Jorge Rauber

Sorry, could you repeat?

Ezequiel Fernandez

Yes, the outstanding amount of the Central Vuelta de Obligado receivable at the end of the second quarter, was it US\$430 million? Is that correct?

Jorge Rauber

Yes. Million dollars you say?

Ezequiel Fernandez

Yes. That is all from my side. Thank you very much.

Jorge Rauber

You are welcome.

Operator

Again, if you have a question, please press star, then one.

The next question comes from Matías Wesenack of AR Partners. Please go ahead.

Matías Wesenack

Hi. Good morning. I wanted to thank you first for the call. I have three questions, if you don't mind. I'll say them now.

First, what was the purchase of the 30% of CPR reflected in the second quarter's cash flow? Then, if we have any news related with the progress in La Genovava? Particularly, I want to know if it will start operating this quarter, or in the last quarter of this year? And lastly, if you could repeat what you are expecting to receive from the beneficial loss due to the unavailability of the unit in Lujan de Cuyo.

Fernando Bonnet

Okay, for the last one, I start with the last one. The beneficial loss was around \$6 million, \$6.2 million in the total beneficial loss. But we have a deductible for insurance of one month, so the recovery will be less than that of course.

I am lost in the last one. The other one was about La Genovava II or La Genovava I, sorry? La Genoveva I.

Matías Wesenack

Yes, about La Genovava I. I want to know if you will be closing operations in the third quarter of 2020 or in the last quarter.

Fernando Bonnet

No, we are thinking to have the operation on October this year.

The other one was about, sorry? Could you repeat the first one?

Matías Wesenack

Yes. If the purchase of 30% was reflected in the second quarter's cash flow or it will be reflected in the third quarter?

Fernando Bonnet

Yes. It was reflected in the second quarter, but as we pay with other financial assets, we don't reflect it in the cash flow itself, but you have a note in the financial statements that express that, in the second quarter, yes.

Matías Wesenack

Okay. Thank you very much.

Fernando Bonnet

You are welcome.

Operator

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

Jorge Rauber

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. Good-bye.

Operator

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