

Central Puerto S.A.

Q4 2020 Results Conference Call

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Time

**CORPORATE PARTICIPANTS**

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

**Fernando Bonnet** – *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 December 31, 2020. All participants have been placed on a listen-only mode. [Operator Instructions] 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 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 Argentinean pesos unless otherwise noted. It is worth noting that the financial statements for the quarter ended on December 31, 2020, include the effects of the inflation adjustment. Accordingly, the financial figures mentioned during the call including the data from previous periods and growth comparisons 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.

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 Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Operating Officer; Milagros Grande, Financial Management; and Nicolas Macchi, Investor Relations Officer.

And now, I would like to turn the call over to Jorge Rauber. Mr. Rauber, you may begin. Thank you.

### **Jorge Anibal Rauber - Chief Executive Officer**

Thank you very much. Good morning and welcome.

We're joining you today with our management team from Buenos Aires, Argentina, to report on the results of the fourth quarter and full year 2020, and then answer any questions you may have.

I would like to begin today's call analyzing the developments of fourth quarter, comment on the progress of our expansion projects, and analyze the operative figures of the quarter and full year. Milagros will present the recent financial news and results.

The COVID-19 crisis has affected almost all the world, and among other consequences for electricity demand in Argentina. As you can see on Page 3, electricity demand decreased 2.2% during the fourth quarter of 2020 as compared to the same period of 2019. As a reference, during 2020, total electricity demand declined 1.3% as compared to the prior year.

Nonetheless, as you may recall, it's worth noting that the decrease had a less than proportional impact in the income of generation companies. In the case of renewable energy unit, 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 generation of the units. Finally, when demand decreases, so that dispatch of the older inefficient units which are remunerated under the Energía asset framework as compared to the new efficient ones, that have a higher remuneration through contracts, also known as, Power Purchase Agreement or PPA.

Going now to Page 4, as you may recall, the measures adopted to prevent the spread of the COVID-19 virus has an impact on the progress of our projects and the construction of La Genoveva I wind farm and Terminal 6 new Cogeneration generation unit.

Regarding La Genoveva I, we are pleased to announce that the project reached commercial operation for its 88.2 megawatts on November 21, 2020 and is currently remunerated under 20-years PPA with CAMMESA. It should be highlighted that the wind farm has 2 partial COD since September 11, 2020 and October 30, 2020 for 50.4 megawatts and 33.6 megawatts respectively.

This is the 7th 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 on November 21, 2020, the plant obtained partial commissioning of its gas turbine 269.5 megawatts selling energy under the spot market regulation, Resolution 31/2020. Once the COD for the full product is achieved, which is expected during the third quarter of 2021, the plant will be remunerated under a 15-year PPA on the energy side and 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 fourth quarter was 3.8 gigawatt hours of electricity, 7% lower than the same period of 2019. This was to a large extent due to a 281 gigawatt hour dropped in generation from our Piedra del Águila hydro plant related to lower water inflows and 159 gigawatt hour decline in generation of Puerto's combined cycle and Brigadier Lopez power plant partially offset by the generation from the new wind farms, Manque, Los Olivos and La Genoveva I. Renewable energy increased 157 gigawatt hours compared to the same quarter of 2019.

Steam production during the fourth quarter increased 4% due to a good dispatch and availability of the Luján de Cuyo cogeneration plant.

Regarding the availability of our thermal units during the fourth quarter of 2020 it reached 91% as compared to 94% during the same quarter of 2019. It was mainly due to certain small failures in Puerto's combined cycle during October 2020 and the unavailability of some of the steam turbines of the Puerto and Luján de Cuyo plants. Still, this indicator remained significantly higher than market average availability for thermal units, which was 78% for same period, according to data from CAMMESA.

On Page 6, you can review the annual key indicators for 2020. Generation reached 14.3 terawatt hours of electricity, 3% lower than 2019. The decline was due to a 485-gigawatt hour decrease of Piedra del Águila due to lower water inflows and 627 gigawatt hour drop in the generation of Luján de Cuyo's combined

cycle due to the unavailability registered during the second quarter 2020 and to a lesser extent due to a lower dispatch of Central Puerto's combined cycle partially offset by full year of generation of the new Luján de Cuyo cogeneration unit and the energy generation from renewable units, which increased 598 gigawatt hours, La Castellana II, La Genoveva II wind farms that commenced their commercial operations during the third quarter 2019 accomplished a full year of operation, where Manque, Los Olivos and La Genoveva I, which reached COD in 2020.

During 2020, machine availability for thermal units reached 89% compared to 93% in 2019, mainly due to a significantly failure in the main transformer of the Siemens branded combined cycle and to lesser extent due to some power limitations on the steam turbines from Lujan de Cuyo and in Puerto Complex certain small failures in the combined cycle during June and October 2020, and the unavailability of some steam turbines. As a reference the market average availability for thermal units for the same period was 82%, according to data from CAMMESA.

Finally, steam production showed an increase of 6% mainly due to Luján de Cuyo cogeneration's COD.

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

#### **Milagros Grande - Financial Manager**

Thank you, Jorge. I will first refer to some recent financial news for the company and then comment on the results for the fourth quarter of 2020 and the full year.

On December 22, the company signed an amendment to the Syndicate Loan obtained to fund the acquisition of the Brigadier López Thermal Plant, modifying, among other terms, the amortization schedule, in order to comply with the requirements of Communication" A "7106, issued by the Central Bank, extending the final term of December 2020 and March 2021 installments until June 2023, incorporating monthly repayments from January 2021 to January 2022, and maintaining the repayments foreseen in the initial schedule for June, September and December 2021, each equivalent to 20% of the capital.

Furthermore, in December 2020, 40% of the installment scheduled for such month was canceled. In addition, the agreed modification included a limitation for the payment of dividends during 2021 and a maximum allowed of Ps. 25 million for 2022. Likewise, further guarantees were granted including a pledge of the turbines of the Brigadier Lopez power plant, a mortgage on the land and which said power plant is located, and an assignment of certain FONI collections.

On February 25, 2021, Central Bank extended the obligation to reprogram payments scheduled between April and December of this year. Nowadays, we are working with a bank on this regard.

Going now to the results for the quarter, if you can see on Page 7. Our revenues were Ps. 9.3 billion as compared to Ps. 15.5 billion during the fourth quarter of 2019. This decrease was driven by the discontinuation of the fuel purchases operation due to the regulations stated on December 31, 2019 that centralized the fuel purchases for all generators in CAMMESA. This effect represented a Ps. 4,565 million variation during the quarter compared to the same period of the prior year.

Excluding this effect, revenues were Ps. 8.9 billion compared to Ps. 10.9 billion in the last quarter of 2019. This decrease was mainly driven by a decrease of Ps. 2,125 million in legacy energy, that is revenues coming from Resolution 31, which without considering the remuneration associated to the self-procured

fuel mentioned above totaled Ps. 3,585 million in the fourth quarter of 2020 as compared to Ps. 5,710 million in the fourth quarter of 2019, mainly due to the lack of monthly price adjustment of Resolution 31 instructed by the Secretariat of Energy on April 8 of 2020, and to a drop of 6% of the energy generation from the thermal units.

Decrease in revenues were further extend by a decrease of Ps. 60 million in the Steam Sales, which totaled Ps. 240 million in the fourth quarter of 2020, compared to Ps. 300 million in the fourth quarter of 2019, despite an increase of 4% in the steam production. This was partially offset by an increase of Ps. 510 million in sales under contracts, which amounted to Ps. 4,759 million during the fourth quarter of 2020 as compared to Ps. 4,249 million in the fourth quarter of 2019 mainly due to the new farms mentioned above.

The gross profit was Ps. 4.7 billion during the fourth quarter of 2020 as compared to Ps. 7 billion in the same period 2019. This was due to the variation in revenues mentioned before and was partially offset by 46% reduction in cost of sales that totaled Ps. 4.5 billion compared to Ps. 8.5 billion in the same period of 2019. The decrease in the cost of sales was primarily driven by a decrease of Ps. 3.8 billion in the purchase of fuel and related concepts due to the continuation of this operation according to the new regulations.

Given the current scenario, no price adjustments for units under Energía Base framework, the company made a strong review on all non-fuel related costs of production. Therefore, administrative and selling expenses were reduced in 25% in real terms, saving more than Ps. 283 million during the fourth quarter of 2020 as compared to the same period of 2019. Gross profit margin totaled 51% during the quarter as compared to 45% in the same period of 2019.

Going to Page 8, we can see the change in our EBITDA which was around Ps. 6.8 billion in the fourth quarter of 2020 compared to Ps. 5.6 billion in the fourth quarter of 2019. In addition to the variation in gross profit mentioned, this was due to an increase of Ps. 3,599 million in other operating results, mainly due to foreign exchange difference gain of Ps. 980 million, mainly related to dollar denominated FONI trade receivables that generated at Ps. 3.1 billion gain during the fourth quarter of 2020, compared to Ps. 2.1 billion during the fourth quarter of 2019. As a reference during the fourth quarter of 2020, the Argentine peso depreciated 10.4%, compared to 3.9% for the same period of 2019. Variations was also due to Ps. 2,544 million lower non-cash charges related to the property, plant and equipment impairment registered which totaled Ps. 2,516 million during the last quarter of 2020 compared to Ps. 5,060 million for the fourth quarter of 2019, mainly related to the price reduction of Energía Base Regulatory framework established by Resolution 31.

Moving to Page 9, the consolidated net income was Ps. 0.6 billion compared to Ps. 1.8 billion in the same period of 2019. In addition to the factors mentioned before, net income was positively impacted by higher financial income that increased Ps. 393 million in the fourth quarter of 2020 as compared to the same period of 2019, mainly due to higher tax difference results on the financial assets denominated in foreign currency, which exclude FONI and other trade receivables measured in Argentine pesos, and the higher mark-to-market gain on financial assets and negatively affected by higher financial expenses, which increased Ps. 2,854 million due to a higher foreign exchange difference on loans, most of which are denominated in the U.S. dollar.

Additionally, the share of profit of associates had a negative impact of Ps. 237 million, there was a Ps. 34 million gain during the fourth quarter of 2020, compared to Ps. 271 million during the same period of

2019 mainly due to lower results from the operations of Ecogas due to the lack of tariff adjustments for the natural gas distribution business during 2020.

Finally, the gain on net monetary position totaled Ps. 219 million in the fourth quarter of 2020 as compared to Ps. 146 million in the fourth quarter of 2019 resulting in a positive impact of Ps. 73 million.

Going to Page 10, you can see our cash flow for the 12-month period ended in December of 2020. Net cash provided by operating activities was Ps. 19.3 billion. This included Ps. 6.6 billion in collection from FONI and CVO installments. The cash flow from operation was partially offset by Ps. 12 billion CapEx disbursement for the expansion project, and Ps. 5.5 billion using – used in short-term investments among other things.

Additionally, on the financing side, Ps. 7.5 billion were used for principal and interest debt services, which was partially offset by Ps. 4.1 billion in new loans received during the period, mainly related to the Green Bonds issued during the third quarter of 2020, among other things.

Finally, on Page 11, the key financial figures for 2020 full year, revenues decreased Ps. 38.1 billion for 2020, compared to Ps. 49 billion of 2019. The decrease in revenue was mainly affected by the abrogation of Resolution 70 of 2018, a lower remuneration given by Resolution 31/2020, and the lack of monthly adjustment as describing the quarterly analysis before.

During 2020, energy generation decreased 3%, despite generation of new thermal and renewable energy plant as described in the highlights. Adjusted EBITDA for 2020 reached Ps. 33.9 billion compared to Ps. 42.8 billion in 2019, mainly due to lower gross profit and operating income negatively impacted by lower FX difference and interests on trade receivables, which declined from Ps. 5.3 billion and Ps. 6.7 billion, respectively.

Finally, consolidated net income was Ps. 7 billion in 2020, compared to Ps. 11.8 billion in 2019, mainly due to a lower gain of Ps. 1.4 billion on the share of profit from associates, higher financial expenses for Ps. 617 million partially offset by higher financial income were Ps. 258 million. FONI collection totaled Ps. 6.6 billion during 2020.

Thank you. And now, we invite you to ask any question you may have to our team.

### **Operator**

We will now begin the question-and-answer session. [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. Two questions if I could, one is just, if you could just discuss potentially how the payment process is now with CAMMESA. Is it continuing normally or what the length of time it is for you to receive payments?

And secondly, just looking forward, when you think of the demand levels have been generally lower over the last year, I was just wondering how your dispatch might be potentially positively affected given what limited capacity is being added to the system as demand starts to recover and begins to grow again? Well, would you expect that to be actually positive for your volumes that you sell into the market over time?

**Jorge Aníbal Rauber - Chief Executive Officer**

Fernando, will you like to answer the first question?

**Fernando Roberto Bonnet - Chief Operating Officer**

Okay, yes, yes, in terms of, I think, Frank, you asked for the delays in the CAMMESA payment. I think that in this way CAMMESA is in kind of a stable in the delay, more or less stabilized in 30 – between 30 and 35 days of delay. We are not suffering much more delays than that.

We are collecting this in the terms of the energy payments, in terms of FONI payments, we are on schedule, we are receiving the FONI payments on time and the renewable contract, which are guaranteed by the FODER, we are receiving also the payments on time.

We are already having delays on then Energia regulatory framework and thermal contracts. And the delay, as I mentioned, are stable around 30, 35 days of delay and stable on that number.

So, we are not having additional problems that we suffered in terms of delay in the last year. So, it is more or less stable there. For the news that we have, the Secretary of Energy and CAMMESA are working towards regularization of that delay in terms of reaching an agreement with the distribution companies in terms of making an increase on tariff and additional payment plan, payment scale for the path.

And we see there some news, or we hope to see some news soon in that sense to reduce that steady rate of delay. But they are working on that. We hope to have some news during this month and the next one. So that is in terms of payment.

**Jorge Aníbal Rauber - Chief Executive Officer**

Yes, basically, what they do, Frank, is the government is covering any delay we can see on the side of the customers, in particular, at the beginning of the quarantine in Argentina, March or April last year we had an impact in payment for the side of the final customer. But the government acted eagerly to reduce that and maintain the payment completely stable.

So we don't have a position now, which is worse than, I don't know, one year before. So it's stable. On the side of dispatch is your second question, what we see is that we reach a kind of base dispatch for our plant. What we have today on dispatch is our more efficient plants, especially common cycles, naturally, we have also the renewable energy operating, because they have a dispatch priority.

So we don't see a real impact in terms of dispatch or in terms of revenue, especially because as we mentioned before in our speech was mentioned that we have a remuneration, which is basically based on installed capacity instead of on dispatch, except for the side of the renewal where we have a priority in terms of dispatch.

So we don't see much difference. Perhaps, if the demand increases after the quarantine, when the – I don't know, when the country start recovering the consumption perhaps will have a slight increase in terms of dispatch, but we don't see a huge impact in terms of revenue. What we have today is a kind of base. And we expect, that means to improve our remuneration, the price instead of the quantity.

On the side of our project, Terminal 6 is also very, very efficient unit. So we don't – I mean, we expect that full operation as soon as the plan is completed, but we expect by the third quarter of this year.

**Q:** Okay, thanks. If I could follow up just – I'm sorry, sorry.

**Fernando Roberto Bonnet - Chief Operating Officer**

Sorry. No, I want to add something that Jorge mentioned, which was clear, but I want to add that the main reduction, if you compare 2019 with 2020 are guided by 2 facts. One is our big problem in our combined cycle in Mendoza, the transformer issue that we have during the second quarter that was more than I think 70 days out of these combined cycles that was a big impact in our production.

And, of course, that was all at that time, since July last year that was all. So this was a big impact, was not dispatch, problem with the failure in transformer. And the second impact in generation during the 2020 was the lower inflows, water inflows in Piedra del Águila, which are these are not dispatch also are less water to produce the electricity in our hydro-plant.

So, if you see in terms of dispatch, the reduction is not so high too. And additionally, on the other hand, we increased production in terms of renewable. So if you see in terms of dispatch, as Jorge mentioned, we are not seeing problems in our efficient units.

In the older ones, steams we have additional exportation to Brazil during the last of the 2020 and then 2021, also all the equipment, the steam turbines were more dispatched than in the previous years. So, as Jorge mentioned, we are not seeing there a problem, really a problem in our efficient units to reduce dispatch in the future.

**Q:** Okay, great. If I could just follow up, in terms of legacy prices, has there been any movement or any discussions about possibly going back to have inflation adjustments or some sort of an adjustment factor?

**Jorge Anibal Rauber - Chief Executive Officer**

Yes, in fact, we were having a lot of discussion with the government. The problem is that, that they are kind of linking the discussion with the prices, with the distribution companies. We are in a year where we have an election in this year. So it's difficult on political terms, but for sure we are having discussions with them.

According to the information we have, they are convinced that they have to do something with the prices going somehow back to the price we agreed, or they said in a resolution last year. When they change and put in place the Resolution 31, they pesified the prices at that time, reduce the prices in dollars terms by pesified them.

But they were supposed to have an advantage – that adjustment was cancelled/suspended somehow. So the discussions are basically focusing on this aspect. I mean, we have to go back. The government is convinced that they have to go back. But they are kind of linking this with a bigger discussion they have with the distribution companies in order to, I mean, try to figure out how to solve that problem, because basically, our system now is relying, again, on a high portion of subsidies. So they have to completely change.

**Q:** Okay, good. Thank you.

**Jorge Anibal Rauber - Chief Executive Officer**

But, I mean, the discussion is ongoing all the time. In fact, we have a meeting tomorrow with them again.



**Q:** Okay. Well, good luck.

**Operator**

[Operator Instructions] This concludes our question-and-answer session. I would like to turn this conference back over to Mr. Rauber for closing remarks.

**Jorge Aníbal Rauber - Chief Executive Officer**

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 your lines.