Conference Title: ContourGlobal 2018 Preliminary Results Announcement
Moderator: Joseph Brandt
Date: Friday, 5 April 2019
Conference Time: 09:00 am UK

Operator: Good morning, ladies and gentlemen, and welcome to ContourGlobal 2018 Preliminary Results Announcement Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Joseph Brandt. Please good ahead sir.

Joseph Brandt: Okay, thank you. Thank you for those of you attending in person and those on the line. I'm joined here by our Chief Operating Officer, Karl Schnadt; Alice Heathcote, who is our Vice President – Senior Vice President in charge of our Renewable Division, Finances and our Investor Relations; and Laurent Hullo, who is our Interim Chief Financial Officer.

We're here to discuss our results for 2018, our first full year results post IPO. We're pleased with the year. As you've seen from the preliminary announcement, we've delivered we believe a very consistent set of results, consistent with the commitments that we laid out when the company went public at the end of 2017.

You'll hear from Karl and Laurent details about our operating and financial performance during the year, reviewing the material that was put together in the preliminary results announcement that we issued today.

High level, very good year of financial results. US$610 million of adjusted EBITDA, that's about 20% growth from 2017 and consistent with the guidance that we gave to the market towards the end of last year. FFO growth was also 18% with about $302 million, top line growth revenue was around 20%, leading to a very strong set of coverages in terms of our HoldCo debt service coverage ratio that we use to calculate coverage over the bond, extremely strong coverages, very consistent with the rating that's significantly higher than we are today.

The net leverage at HoldCo, which we believe is the key leverage metric for the company was 2.2 times, and then the net debt to adjusted EBITDA result was 4.4 times within the target that we laid out at IPO of 4 to 4.5 times. Very strong operating results obviously to produce those financial results. We always start with health and safety and our health and safety performance was excellent. Again, we matched an all-time record 14-year record with an LTI, lost time incident ratio, of 0.03 that anchors us very high in the top decile category.

Availability for both the renewable and thermal fleet was very good. You'll hear more details about this from Karl. We had a very active year in terms of growth. As you know, we have in the last nine months announced two Class 1 transactions, one of those was the acquisition of five CSP plants in Spain from Acciona, which we closed in May. The second we announced just over year-end 2019, which is the acquisition from Alpek of two large combined cycles cogeneration plants in Mexico, which we expect to close in June.

Together with those transactions, we also took advantage of very significant demand amongst the financial investing community to buy into the types of assets that we create and acquire. And so, through these farm downs sales of minority interest to low cost of capital buyers, we were able to recycle at very attractive rates and terms, capital that we had invested into businesses in one case that we developed through greenfield and acquisition and operate, which is Italy and Slovakia, and in another case, we had just recently acquired. So, both farm downs were at extremely attractive multiples to our invested capital, including the acquisition of the CSPs that we had done in May.

We made good progress in 2018 on several of our growth projects. You'll hear about them in more detail shortly, including the milestones required to move the Kosovo project forward this year to financial close and the commencement of construction.

On the basis of these results and the strength of the company's financials and increasing scale that we've seen throughout the year, the directors have recommended to shareholders to increase the 2018 dividend to $90 million, which is above the range that we had laid out, which was previously top of the range towards the end of last year at the semi-annual results presentation in August. And then we've guided to a 10% annualised growth rate in that dividend and we're also moving the dividend to quarterly payout beginning this year.

Turning now to slide 4, to give you a sense of the growth that we've seen in adjusted EBITDA as well as the guidance taking into account the expectations of the closing of the Mexican cogeneration acquisition. Two things I think are worth noting. On a 2019 basis, assuming the closing of the Mexican CHP acquisition in the first half of this year, the guidance is to achieve adjusted EBITDA of approximately US$720 to US$770 million. Obviously, that does not reflect a figure of the cogeneration assets in Mexico. And so, on a run rate basis, we view the guidance as between US$760 million and US$810 for adjusted EBITDA.

On slide 5, update on the cogeneration transaction that we signed with Alpek. We have our shareholders meeting today to approve the transaction. This is, as you'll recall, a large transaction of approximately 500 megawatts of combined cycle capacity. One of the projects is already in operation. The other project is in its commissioning phase right now. We expect it to come out of commissioning shortly and to enter into commercial service within the next two months. So, we're very close to closing that transaction and bringing the two assets into the portfolio.

To remind you, we are funding the acquisition through parent company investment of cash equity and then a project financing that was fully underwritten by Scotia Bank to the tune of about $590 million. We have had significant success as we put this transaction together as we talked in January, contracting the project. We expected in January for contracting to pick up and be close to 100% before we closed and we're on track to be between 90% and 100% by June. And then our estimate for the adjusted EBITDA contribution of the Mexican cogeneration assets is about $110 million for the first full year of operations.

Turning then briefly to slides 6 and 7, an update on the Kosovo projects. This project, as you are aware, if you followed company over the last two years, is a project that's critically important. It's essential, even vital for the country. It is the project that will replace the most significant source of pollution in Europe today, the so-called Kosovo A plant. This is a plant that has been in operation for over 40 years. It has emissions in the key environmental criteria that are higher than anything you would have seen in Europe for 20 to 25 years, including particulate matter, which is effectively dust and particles that hang in the air and make breathing very difficult, sulphur oxides, nitrogen and carbon are all well above European norms.

The Kosovo project will eliminate the production from this plant and bring substantial reductions in all of those categories of pollutants and put the business into – put the generating facility into the category of best available control technology and best-in-class when it comes to lignite fuel, which is the sole source of energy in the country.

Throughout 2019, we have been working to put together the – both the EPC contract and the financing. We made very good progress in 2018 for that. This year, we expect a very significant flow of information and news around the project beginning with the selection of the EPC contractor, which will occur imminently. We expect the announcement to be made this month. We had very good engagement from the contracting and equipment community over the course of the year. We put the project out to tender. We had four well-qualified bidders, marquee names, which you will recognise when the winning bidder is announced. We've had a very robust

process, which will lead to very attractive price both of the power plant and then the resulting delivery of electricity price to Kosovo when the project goes into financing and into operation.

On the financing front, we have been working with development finance institutions and export credit agencies. The export credit agencies, of course, being brought into the project by the EPC contractors. We will time the financial closing around the timing for finalising the EPC, the construction contract. We have a development finance provider that we have been working with now for several months, which will provide the lead financing and they're actively in both the diligence and the assessment phase and waiting for the EPC contractor to be chosen so that the export credit finance providers will be identified. So, we expect this month for EPC contractor, the construction contractor to be announced, and then we expect that we will reach financial closing notice to proceed, which is the commencement of the construction this year in the second half of the year.

Turning now to two projects that we've provided information about and are general sources of growth for the company on slide 8 and 9. I mentioned the partnership with Credit Suisse Energy Infrastructure Partners in Slovakia and Italy in the farm down transactions with them. We were able to then bring them into the CSP project in Spain, which is obviously great when you find a good partner, you'd like to continue to work with them in new areas, new regions and new projects.

In addition, I would remind that in the case of Italy, it's a growth platform with CSEIP, so they are participating in future growth and are 49% partner in future growth. We've seen activity that we like in Italy. We continue to believe that investing in Italian renewable platforms both in solar and in things like biogas are attractive when you have a good operating platform in the country. We've seen operations there deliver expected and very interesting opportunities both on the growth side and on the continued expansion of some of the existing assets. We expect that to continue and we expected to see meaningful growth this year in Italy in the renewable space, particularly both solar and in biogas.

In Austria, the activity that was set and targeted for 2018 was to complete – start and then complete the repowering projects, so the additional capacity they we're adding to our wind sites there. We had a very good year moving those projects forward. We had two projects that were targeted to begin repowering in 2018. This is the repowering of our portfolio that's currently about 150 megawatts in Austria.

Phase one of the repowering of those two projects, one has gone into commercial operation as expected in January. The other is expected to go into commercial operation in the next month as expected and then we are in the middle of repowering the phase two projects of the additional projects, and we expect those to move into construction repowering and then commercial operations in the next 12 to 18 months.

With that, I will turn it over to Karl to walk us through the operating results for 2018.

Karl Schnadt: Yeah, thank you. So as usual, I will talk first about our health and safety performance. 2018 was again an excellent year regarding our health and safety performance in the same way as it was in 2017. So, during the whole year, we had one accident, which we count as an LTI, long-term incident. That means any incident where a worker has any impact and doesn't come to work next day, we count it as an LTI. So, in both years '17 and '18, we had one, so although we missed our target zero, we are here on a good track. And if we look to our LTI rate, this is our number of LTI days from 200,000 working hours. This rate is 0.03 and we are really leading health and safety performance. If we compare it to our industrial peers, our rate is really, really good.

So, because we only have the LTI, we call lagging indicator, so we cannot analyse much if we have one LTI. So, we are now focusing on our leading indicators. These are KPIs, which we –

which every power plant has to fulfil and this gives us a good indicator that we continue with this good performance.

Then I would like to turn to the next page and talk about our operational performance. The thermal operation performance in general was not as good as in 2017. You can see that the figures of 2017, our availability was 92.6% and in 2018 it was 90.2%. But because we have a good, let's say, safety margin in our contracts regarding availability, this had now impact on our financial performance.

If you look to the next part, it's the wind availability. So, last year, we talked that we were not sufficient on about our Brazilian wind performance in 2017, and we talked about a turnaround here, and this really we had very good progress regarding the Brazilian availability factor and we could raise the wind availability mainly affected by Brazil from 92.7% to 95.8%.

If you look to the Hydro, this is even better than in 2017 with an availability of 98.5%. And then Solar remains on a very high level of 99.2%, and now for 2018 the first time we are reporting also solar CSPs, the concentrated solar power plants, which we acquired in Spain in May 2018 with an availability of 95.3%, which is in the margin we have planned.

If you look to the capacity as to the resource in the renewable fleet on page 13, the 2018 production was below long-term average levels in an area of 7.8%. The long-term average levels we calculate on our resource studies and we take the P50 as basis. And here we were 7.5% below compared to P50. The focus here is really on Brazil wind, where in 2018 even below the – we saw factor of compared to 2017. The same in Austria. So, Austria and Brazil were less [inaudible] sources compared to the previous year.

So, saying this, I would like to hand over to my colleague and talk about the financial performance.

Laurent Hullo: Thank you, Karl. So, I move to slide 15. So, 2018 was another good year for the company with a significant growth of the main KPIs, which was achieved despite, as Karl was describing, which was a very low wind year. Adjusted EBITDA grew by more than 19% this year and even 27% if we pro forma for the CSP business on a full year basis. We now started to present the proportionate adjusted EBITDA, which is the adjusted EBITDA adjusted for our current ownership. As Joe mentioned, we adopted this year this new sell down strategy at very attractive returns as we will maintain this strategy also in '19 with the sale of the minority stake in the CSP business. From a cash flow perspective, the FFO was also increasing significantly this year by more than 18% versus last year and we expect the FFO to grow on a similar basis for the next periods.

If we move to the next slide, the next slide presents the bridge of adjusted EBITDA for two divisions; Thermal and Renewable. Thermal continues to produce extremely stable cash flows on a like-for-like basis due to all the protections that are provided by our PPA structure and that there's been no significant change during the year, so the one-off were compensated by FX, and we are heavily protected from all the changes in the market or in the production due to the PPA structure.

On the Renewable divisions, there's a very significant growth there that is essentially coming from three elements, essentially from growth, so the CSP acquisition, the full year of our Hydro Brazil portfolio that we acquired in March '17 and the Solar roll up strategy that we continue to pursue. The second element that increase this year is a better availability, essentially in Brazil that positively impacted our EBITDA during the year. And, finally, the net cash gain on the sell-down of our assets in Slovakia and Italy, and it was also achieved despite a lower Brazilian Reals during the year.

The next slide is presenting the reconciliation between adjusted EBITDA and our IFRS metrics. The main elements I would outline in this slide is that our net income has been hit by a number of one-offs. So, if we normalise the net income excluding the one-offs, we would have had a net income of $63 million. The main one-off impacts where the bond refinancing premium that we paid in July to our prior bondholders prior to the refinancing of the corporate bond and also the acquisition-related items because we had an extraordinary year on the M&A side to the acquisition two Class 1 transactions, the two sell-downs and also the solar roll out strategy.

On the next slide, you'll see the – how – the bridge of the FFO between last year and this year. So, FFO continue to significantly increase and the cash conversion, which compares the FFO and the adjusted EBITDA, remains stable at 50%, so at very high level. One element I would like to note on this is that the interest paid increased quite modestly I would say after the integration of the CHP business and this is because we refinanced the corporate bond in July at a much lower rate. On an annual basis, the interest rate of refinancing will decreased by more than $10 million.

If we go to the next slide, then from a liquidity perspective the company continues to be highly cash generative. The cash balance at the end of December '18 was close to $700 million, plus $77 million available on our revolving credit facility and this cash balance does not factor the proceeds from the sale down of our CSP business that we expect to close in Q2 2019 and that will provide an additional €134 million of cash at corporate level. This high level of liquidity allows us to present to our next AGM a dividend of $90 million for the year, of which $63 million is expected to be paid in May 2019.

If we now move to the next slide, this slide is really interesting and it shows how the management thinks about the company, which is how much cash flows come from the assets to corporates and how much cash is left after paying our corporate overheads and paying our corporate bond interest and that cash will be used for dividend and reinvesting growth. So, this year, we had distribution of about $275 million, so very high level. And as per cash overheads and corporate bond interest, this leaves the company with $210 million available for growth and for dividend payments. As a result, we increased, as Joe mentioned, the dividend guidance from $80 million to $90 million for the year. The key corporate metrics are extremely healthy 6.1 times for the corporate DSCR. The net corporate leverage is very low at 2.2 times and the dividend cover are extremely comfortable at 2.3 times, which supports the new guidance.

And finally, if we move to the next slide, this slide is showing the main characteristics of our debt. In 2018, we increased the maturity from eight to nearly ten years. And if you exclude the corporate bond, it's even more than that. It's more than 12 years. The tenor is usually linked to the PPA. So, that leads to a lower refinancing risk in the future and the debt is fully non-recourse, which provides some clear credit protection in case of any underperformance of our assets. All the projects deamortising[?], so that result in very rapid deleveraging overall and the weighted average cost of the debt decreased this year to 4.5% and that's the result, first of the refinancing of the corporate bonds at very attractive rates and also of the long-term financing of the CSP business that we acquired. So, it's a long-term 3.4% debt over 18 years.

And, finally, so we guided during the IPO on our ratio, IFRS net debt to EBITDA, being between 4 and 4.5 times, and this year we will be at 4.4 times despite the acquisition of CSP. We are – we remain to the guidance we gave.

With that, I turn now to Joe for the conclusion.

Joseph Brandt: Yeah, so we'll open it up now for questions in the room and on the phone line.

Operator: Thank you so much, sir. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please

press star one to ask a question. We will pause for just a moment to allow everyone to give an opportunity to signal for questions.

Alice Heathcote: So, we'll take our first question from the room. So, if you'd like to go ahead.

Speaker: Good evening. It's Alex Wheeler from RBC. Three questions from me please. First of all, what are the key factors that influence why you end up in 2019 EBITDA guided range of 75%?

And secondly on operations, are there any material maintenance or [inaudible] you're aware of 2019?

And thirdly if you could just give us an indication [inaudible] market [inaudible] pipeline, that would be great. Thank you.

Laurent Hullo: Okay, so I'll start with the guidance. So, the guidance for next year, so it's actually factor the number of elements. First, it's factor of the closing of our CHP acquisition at the end of June this year. So, we see in this guidance half of the expected run rate EBITDA for the CHP. This includes as well the expecting gain on the CSP shutdown of about $50 million that we expect to close at the end of Q2. And other estimates come from the natural growth of the portfolio with the inflation factors and with the solar roll out strategy that also we continue to pursue.

Karl Schnadt: Yeah, regarding operations, we don't expect a material overall this year, so we have, at the moment, running a minor inspection of the gas turbine. This is the term we use. They are looking at hot gas and checking it. Then in our lignite power plant in Maritsa, during the summertime, we have the four lignite boilers, we make – change some heating surfaces in two of the boilers. And then we have our, I would say, hybrid in Armenia in the Hydro power plants where we – which we operate and during the operation we do the refurbishment programme, so we are here on track. And with the refurbishment programme, we have the first hydro turbine came back into operation last month. So, these are the main topics during the year 2019.

Joseph Brandt: And then on the growth question, we continue to see a very good market in our core regions, Europe, Latin America, sub-Saharan Africa on both the acquisition and the greenfield side. I think the activity that you should expect this year, we continue to be interested in developments that we see in places like Latin America and the Caribbean. We talk in the preliminary results in my letter about the project that we have in Bonaire, which is upgrading the battery storage. At this very unique integrated generation facility that combines renewable resource wind with battery and liquid fuel backup; we supply about 98% of the island and it's a small project but it has very significant implications for how island nations think about and decentralised systems think about the provision of electricity, and we see a lot of opportunity in that space to bring those types of integrated solutions into the market and substantially lower electricity costs for places that previously have been fully dependent upon liquid fuel.

We see some interesting M&A opportunities in the Caribbean Latin American region as well, particularly around companies that are either looking to reposition portfolios or investments or looking to kind of exit certain regions.

On the greenfield side in the Americas with the acquisition in Mexico and the significant contracting demand that we see on the CGA1 project, which is the project that's currently in commissioning there, we will have far more contract demand than we will be able to provide. Prices in the Mexican market are high. It's a volatile market, which leads many of the commercial and industrial customers to look for long-term contracted protection against that volatility. And so, given that continued influx of very cheap natural gas from North America into Mexico and the growth of the Mexican commercial industrial market generally, we think that we'll see meaningful greenfield growth in that market developing into contracted off-takers like the type that we've seen that have been interested in both the steam and heat production and then the electricity production in the Mexican cogeneration assets that we will shortly close.

We also see in that region several of our development projects, wind development projects, one in Peru, one in Mexico. It feels like there's increasing demand in both markets on the corporate PPA side. I think we'll see meaningful progress on both of those projects this year.

Europe for us continues to be interesting, primarily as a merger and acquisition market. The type of activity that you have seen from us in Europe over the last five to six years acquiring businesses changing the way they're operated, in some cases, either rehabilitating or investing in expansions; that's where we see the value in Europe. We don't see the value on the greenfield side of the business with a few exceptions potentially in Spain. In Italy, as we spoke earlier, we feel like we have a good operating platform there and have shown the ability to grow well and to improve operations. We have a good operating team in Italy. It was the strength of the operating team that really led Credit Suisse Energy Infrastructure Partners to come in and partner with the company there. And so, I think you will see this continued expansion of that business through portfolios in the range of 15 to 25 megawatts of renewable per transaction. And I think somewhat behind the scenes, you've seen that strategy be successful now over the course of several years and I expect that to continue.

In terms of sub-Saharan Africa, we obviously have a meaningful footprint and a long history of operating successfully there. I continue to see the most interesting opportunities, greenfield of course, given that the continent remains undersupplied but primarily extensions of our own assets. So, we continue in places where we currently exist, Senegal, Togo, Rwanda, Nigeria, we continue to see opportunity to expand our existing production assets and that's the focus more than moving into development in new markets. We monitor the markets obviously around the countries that we're already in. But given that all of the countries that we are in are undersupplied when it comes to electricity, and given that we have a long history of successfully operating in these countries, it's always easier to expand in the places you are rather than to go to new places.

Overall, when I look at the pipeline today, it's a deep pipeline. I mean, we view pipeline as a mix of acquisition opportunities plus greenfield opportunities both those that we have developed or are developing and those that we're looking to develop. We view the pipeline is between five and 10 gigawatts. We look to winnow down the pipeline, so we're not a company that creates pipeline and then feels compelled to go take the pipeline into the market irrespective of the types of returns that you can achieve in the market. And so, I would say that the type of near to medium-term pipeline active pipeline of greenfield plus M&A is probably somewhere between 2.5 and 5 gigawatts and we have consistently seen over the last ten years that that type of pipeline is executable at a pretty high success rate. And so, it's a robust growth outlook for us and it's not changed since 2017. And I think that we will have an active year in 2019.

Alice Heathcote: There's no questions on the phone line so far.

Joseph Brandt: Okay.

Operator: I see there are no questions on the audio line, sir.

In-Room Speaker: Two questions on the [inaudible]. What's your sort of plans are [inaudible].

Joseph Brandt: Sure. Right. So, the question is about the Arrubal plant in La Rioja in Spain. The contract expiration date is July of 2021, so coming up in the next 18 months or so. We look at that business and see two things, increasing prices in the Spanish market, which I think are seen by everyone and probably surprising to many. We also see active trading in the combined cycle sector, right. We're seeing a lot of acquirers of combined cycle assets, mostly matching those businesses to customer demand, aggregate customer demand. So, you see a lot of rolling up of customers, commercial industrial and retail in the Spanish market today. That's a favourable backdrop to contracting the plant. We would expect that, as we get towards the end of 2020, that

we'll start to get more visibility on the type of contract that we will be able to enter into and the type of counterparty and, obviously, price.

I continue to feel comfortable that we'll be able to contract that plant at the expiration of the Gas Natural toll[?]. I continue to think it looks like a three to seven-year contracting market today. And on the basis of the prices we see in the market, I think you'll get a much better indication of where do we see pricing come out toward the end of next year.

The plant that we own in Colombia that came off contract at the end of last year, I continue to think is a pretty good model for thinking of about re-contracting, so that business was one that had a 20-year contract. The contract expired last year. And in the 12 months running up to the expiration date, we contracted the capacity on that plant from between five and ten years. And I think that it's the type of timing, at least, that you'll see in Spain. So, we'll be able to give a lot more visibility as we move into 2020.

Okay, no more questions on the line or in the room. And so, with that, we'll thank you for your attendance. We have, at the last page of the presentation, the forward-looking calendar as well as our IR contacts. And you should feel free to reach out with any questions you have about the results or to follow up on our call today. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect your lines.