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# EDITED TRANSCRIPT

IENOVA\*.MX - Q4 2017 Infraestructura Energetica Nova SAB de CV  
Earnings Call

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## FEBRUARY 21, 2018 / 4:00PM, IENOVA\*.MX - Q4 2017 Infraestructura Energetica Nova SAB de CV Earnings Call

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**Arturo Infanzón Favela** *Infraestructura Energética Nova, S.A.B. de C.V. - Chief M&A and Planning Officer*

**Carlos Ruiz Sacristán** *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

**Manuela Molina Peralta** *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

**Roberto Rubio Macías** *Infraestructura Energética Nova, S.A.B. de C.V. - VP & Controller*

**Susan Bradham** *Sempra U.S. Gas & Power, LLC - Former Regional VP of Commercial Development*

**Tania Ortíz Mena López Negrete** *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

### CONFERENCE CALL PARTICIPANTS

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**Barry Klein**

**Christian Audi** *Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals*

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**Jeremy Bryan Tonet** *JP Morgan Chase & Co, Research Division - Senior Analyst*

**Pablo Ordóñez** *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

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### PRESENTATION

#### Operator

Good day, everyone, and welcome to the IEnova Fourth Quarter 2017 Earnings Conference Call. Today's conference is being recorded. At this time, I'm pleased to turn the conference over to Sue Bradham. You may begin.

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**Susan Bradham** - *Sempra U.S. Gas & Power, LLC - Former Regional VP of Commercial Development*

Good morning. Thank you for joining us. Today, we will be discussing IEnova's full year 2017 and fourth quarter 2017 financial results. A live webcast of this teleconference and slide presentation is available on our website in the Investor Relations section. In the presentation, you will find our disclosure statement. The forward-looking statements contained in this presentation speak only as of today, February 21, 2018, and the company does not assume any obligation to update or revise any of these forward-looking statements in the future. With us today on the call are several members of our management team: Carlos Ruiz Sacristán, Chairman and Chief Executive Officer; Nelly Molina, Chief Financial Officer; Tania Ortíz, Chief Development Officer; Arturo Infanzón, Chief M&A and Planning Officer; and Roberto Rubio, Vice President and Controller. Please turn to Page 3 of the presentation provided on our website, and I will turn the call over to Carlos.

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**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you, and good morning, everyone. Thank you for your interest in joining the call. I would like to spend some time reviewing IEnova's extraordinary 2017 results, then Nelly will discuss financial results and the status of our projects. Afterward, Tania and Arturo will talk about our business development plans. Finally, I will give you our 2018 guidance, and then we will open up the call for your questions. Please turn to Page 4. Last summer, we initiated a very important line of business. We won the Port of Veracruz concessions to build and operate a marine storage terminal. Shortly thereafter, we signed a long-term contract with Valero for 100% of the capacity of that terminal plus 2 additional inland terminals,



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one in Puebla and another in Mexico City. The total investment for these 2 terminals is approximately USD 275 million. The Veracruz terminal is scheduled to start commercial operations at the end of this year, while the 2 inland terminals would follow by mid-2019. These assets will contribute to the reliability of refined product supply in Central Mexico, and they are the first of our projects in this new business segment.

Please now turn to Page 5. In March 2017, we signed the first contract for electricity supply between a private generator and an industrial customer. This project has a long-term dollar-denominated contract with DeAcero, a leading steel company in Mexico, to provide energy, clean energy certificates and capacity from a new 110-megawatt solar power plant called Pima. It has an estimated investment of \$115 million, and it is scheduled to start operations at the end of this year. Additionally, in November, we executed another 20-year power purchase agreement with San Diego Gas & Electric to supply wind energy to Southern California. This contract, which we won through a competitive bidding process, will anchor a 108-megawatt wind generation facility in the municipality of Tecate in Baja California, next to our Energía Sierra Juárez wind project. It has an estimated investment of \$150 million. Subject to regulatory approvals and other authorizations, this project is expected to begin commercial operations in the third quarter of 2020. We have already received approval from the California Public Utilities Commission, and we are awaiting approval from the United States Federal Regulatory Commission. These transactions are aligned with our commitment to develop an energy infrastructure in the country, and it strengthens our position as a clean energy producer in Mexico.

Please now turn to Page 6. We also completed an important acquisition in November, when we acquired Pemex Transformación Industrial's 50% in the Ductos y Energéticos del Norte joint venture. As a result of this transaction, IEnova will increase its ownership in the Los Ramones Norte pipeline from 25% to 50%. The total purchase price was \$547 million, including debt. We continue to actively pursue M&A opportunities in the market and to be disciplined in evaluating these acquisitions.

Please turn to Page 7. Finally, in December, we successfully executed an \$840 million senior note offering in 2 tranches. We issued a 10-year bond of \$300 million at 3.75% and a 30-year bond of \$540 million at 4.875%. The senior notes, which were more than 6x oversubscribed at the peak, received investment grade ratings from Fitch, Moody's and Standard & Poor's. The proceeds of this transaction were used to repay our short-term debt, leaving most of our \$1.2 billion revolver line available for working capital, capital expenditures and other general corporate purposes. As a result, our weighted average debt maturity increased from 4 years to 10 years. This improved our capital structure and enhanced our ability to continue funding new commitments while maintaining a solid balance sheet and investment-grade ratings. I will now turn the call over to Nelly to discuss our financial performance and construction progress.

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### **Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Thank you, Carlos. Good morning, all. Please now go on to Page 8. Full year 2017 adjusted EBITDA was \$759 million, up 51% from \$504 million in 2016. The increase of \$255 million was due to the 3 acquisitions: Gasoductos de Chihuahua, Ventika and Los Ramones Norte and to the start of operations of 4 pipelines. I would like to highlight that our \$759 million full year adjusted EBITDA was at the high end of our guidance, which was \$735 million to \$765 million.

Fourth quarter 2017 adjusted EBITDA was \$182 million, up 13% from \$161 million in the same period of 2016. The increase of \$21 million was mainly due to the acquisitions of Ventika in December '16 and Los Ramones Norte in November '17, higher operational results at the TDM power plant; and the start of operations of new pipelines. This increase was partially offset by higher operating, administrative and other expenses. Full year 2017 profit was \$418 million, up 135% from \$178 million in 2016. The increase of \$240 million was mainly due to the acquisitions of Gasoductos de Chihuahua and Ventika, the start of operations of the 4 pipelines, lower income tax expense and higher operational results at the TDM power plant. This increase was partially offset by exchange rate effects, and these figures exclude the non-cash after-tax impairment charges related to TDM and the non-cash gains related to Gasoductos de Chihuahua. Profit for the fourth quarter of 2017 was \$37 million compared to \$28 million in the same period of 2016. The increase of \$9 million was mainly due to the lower income tax expense, higher joint venture profits and higher operational results at the TDM power plant. This increase was partially offset by exchange-rate effects and higher operating, administrative and other expenses.

I will now review the results of our 2 business lines, and please go to Page 9. Full year 2017 Gas segment profit before income tax and share of profits in joint ventures was \$526 million compared with \$337 million in 2016, excluding the non-cash gains related to Gasoductos de Chihuahua. The increase of \$190 million is mainly due to the acquisition of Gasoductos de Chihuahua, the start of operations of the 4 pipelines and higher



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distribution revenue at Ecogas. This increase was partially offset by lower interest capitalization related to projects under construction and higher operating, administrative and other expenses. Fourth quarter 2017 Gas segment profit before income tax and share of profits of joint ventures was \$113 million compared to \$135 million in the same period of 2016. The decrease of \$22 million is mainly due to operating, administrative and other expenses and lower interest capitalization related to projects under construction.

Please turn to Page 10. In the full year and fourth quarter of 2017, the Power segment had a profit of \$21 million and a loss of \$0.2 million, respectively, before income tax and share of profits of joint ventures. This increase in 2017 was mainly due from Ventika, which was acquired in December 2016. Please go to Page 11, where you have the list of all of our projects that we have under construction. Last year, we made investments totaling approximately \$925 million, which included the funding of marine pipeline, the 4 gas pipelines placed into operations, our liquids terminal and the acquisition of Los Ramones Norte pipeline. We have 8 projects under construction that will be completed in the following years, 2018, '19 and 2020. For 2018, we have in our plan the completion of the Marine pipeline late in 2018 and our first solar project, Pima. For 2019, we have other 5 projects to start commercial operations: 3 liquids terminals and the 2 solar projects. The expansion of Energía Sierra Juárez is scheduled to commence operations if we receive all the authorizations by 2020. With that, I will now turn the call over to Tania to discuss sources of new growth.

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### **Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Thank you, Nelly. Please turn to Page 12. As mentioned in our Analyst Day, there is a large variety of opportunities to develop energy infrastructure in Mexico. I would now like to talk about some specific prospects that we are pursuing. We are actively working to expand the liquid storage terminal business that we began last year, and we are seeing a lot of interest and activity in this area. Our goal is to create a large portfolio across the country with other high-quality counterparties. In renewables, we continue to work on additional bilateral contracts with industrial customers, similar to the one we announced with DeAcero last year, one of the largest steel producers in the country. We remain focused on projects that allow us to tailor solutions to meet customer needs, creating more value and enabling us to meet our return requirements. Regarding transmission lines, the Ministry of Energy issued the bid guidelines to connect Sonora to Baja California, which is currently isolated from the rest of the Mexican transmission system. Additionally, CFE is moving forward with a transmission line bid to connect renewable resources in Oaxaca to demand in the center of the country. We are evaluating these new business opportunities. Each transmission line is worth approximately \$1 billion, and they are expected to be awarded during the third quarter of this year. We have also made significant progress converting our Energía Costa Azul import facility to a liquefaction facility. We received the 3 major Mexican permits that are required, and we are moving forward with commercial discussions to better understand demand and size the project appropriately. As you can see, there are a lot of growth opportunities in the market, and we will continue to be disciplined in our pursuit of them. I will now turn the call to Arturo, who will discuss another area of growth, M&A activity.

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### **Arturo Infanzón Favela** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief M&A and Planning Officer*

Thank you, Tania. In addition to developing greenfield projects, we continue to pursue M&A as part of our growth strategy. This will be an active year for M&A as we are seeing several assets in the market, both in the Power and Gas segments. We continue to evaluate these opportunities and assess strategic partnerships. We will remain disciplined in our approach to M&A to ensure that we continue to earn the same rates of return. Please turn to Page 13, and I will turn the call over to Carlos.

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### **Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you, Arturo. Now I would like to provide our adjusted EBITDA guidance for 2018. This year, we expect adjusted EBITDA to be within the range of \$805 million to \$845 million. We based this guidance only on contracted projects and completed acquisitions. The IEnova team is focused once again on achieving these goals. Furthermore, as you know, we also have projects under construction that are expected to achieve commercial operations between the end of the year and the first half of this year. Therefore, we expect a significant adjusted EBITDA increase for 2019. In terms of the 2018 capital expenditure budget, we expect to invest approximately \$730 million. This capital expenditure will be used to finish the projects we have under construction as well as fund our operating CapEx.

Please turn to Page 14. In summary, I am pleased with the continued and significant growth of the business and to have successfully placed in service several important pipelines. The focus for this year is to meet our adjusted EBITDA guidance and find new investment opportunities that



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will continue delivering growth what attractive returns and stable cash flows. With that, I will open up the call for your questions. Thank you very much.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) And our first question is from Frank McGann with Bank of America Merrill Lynch.

#### Frank J. McGann - BofA Merrill Lynch, Research Division - MD

I don't think these were handled. I, unfortunately, had to call back in a couple of times because of some technical issues, and I missed the beginning of the call. But there -- just in terms of expenses that, at least relative to our expectations, were a little bit higher than expected. You mentioned in the release the higher ramp-up expenses at some of the pipelines. And I was just wondering if you had a little bit more detail on what drove that? And how much of that should we consider to be nonrecurring? And then as a second question, TDM seemed to have pretty good results in the second half of the year, and I was just wondering what the status is right now in terms of the sale process? Whether the business is looking better, maybe you're reconsidering -- whether you would sell that or not.

#### Manuela Molina Peralta - Infraestructura Energética Nova, S.A.B. de C.V. - CFO

Thank you, Frank. Regarding the operating expense, as you indicated well, those are mostly nonrecurring expenses. And typically, we have scheduled maintenance expenses, for example, in some of the pipelines in different quarters. So it is happening in this last quarter of 2017. But for the details that explain that, I will turn to Roberto, because there are 3 factors affecting these operating expenses.

#### Roberto Rubio Macías - Infraestructura Energética Nova, S.A.B. de C.V. - VP & Controller

Thank you, Nelly. Frank, actually, yes, there are 3 main components related to the decrease in EBITDA, or increase in expenses, for the fourth quarter in the Gas segment. One, the majority are scheduled maintenance costs included in the 2017 budget occurred in the fourth quarter of 2017. Second, construction costs that were not capitalizable related to pipeline projects that went in service in 2017. And finally, third quarter EBITDA included one-time revenue true-up in that corresponds to the second quarter related to one of the other pipeline's start-up operations. The majority of these items are nonrecurring, as Nelly mentioned, and have been considered for our 2018 guidance range of \$640 million to \$676 million.

#### Manuela Molina Peralta - Infraestructura Energética Nova, S.A.B. de C.V. - CFO

Regarding the TDMs, Arturo will address that.

#### Arturo Infanzón Favela - Infraestructura Energética Nova, S.A.B. de C.V. - Chief M&A and Planning Officer

This is Arturo. In terms of TDM, as you pointed out, the plant is having better results. I mean, even though we are trying to sell the plant, we're working on making it more efficient. In terms of the sales process, we continue with that process. There are still several parties interested, working on due diligence. So our goal is to maximize the value of this plant, and we're working towards that. One important thing that came in the market is, like Tania mentioned, the transmission line for Baja that will give value to the plant, so that was a good news for this sales process.



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### Operator

Our next question comes from the line of Christian Audi with Santander.

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**Christian Audi** - *Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals*

I have 4 questions. The first one, Carlos, on the EBITDA guidance, if you could just explain to us what's leading to this range between the low and the high? What are the factors that would drive the difference between the bottom and the top of the range? The second question was for Nelly. On the projects, Nelly, can you give us an update on that force majeure that you were dealing with in the past? Has that changed? Has that been resolved? And if there are any other projects in force majeure, or is that the only one? And then the third question was for Tania. Tania, if you could provide a little bit more specifics on the timing of the SENER and CFE? You mentioned that you already have bidding guidelines for SENER, but not yet for the CFE. So if you could just explain when you think you will get those and when the bids are due? And then my last question was for Arturo. On the M&A front, Arturo, are you seeing, given that this is a presidential election year, does this mean that if you have, as you mentioned, many M&A opportunities, are they likely to happen before the elections? Because before, nervous about what the outcome could be? Or is this more of a second half of the year dynamic that it's the opposite? People want to see how the elections turn out, and then really become more or less aggressive on the M&A front.

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**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you, Christian. Nelly, could you please answer the question of Christian in relation to the EBITDA guidance?

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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Sure, Carlos. Our range in the guidance is probably just the start of operations of some projects this year, as I mentioned, the Marine pipeline and PIMA Solar. And we have scheduled those in the fourth quarter. So we have included here a certain range for the commercial operations of those. In addition, some of the things that we haven't planned for the scheduled maintenance for some of the assets may increase expenses. So that's why we allocate some of those expenses in our range. Now regarding the project and the force majeure that we currently have on Guaymas-El Oro pipeline, that is still continuing under force majeure. The pipeline is not in service at this time. And we continue actively working with all authorities, the CFEs, federal and state and local agencies, to resolve these items. We, of course, declared the force majeure under the contract, and currently, we don't have any economic impact.

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**Christian Audi** - *Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals*

And Nelly, very quickly, is there a point at which there will be an economic impact? Or does this keep going for as long as the force majeure is in place?

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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Well, under force majeure, we continue receiving payments, and we don't have any other expectation that is different than that.

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**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Christian, this is Tania. Regarding the transmission line, both those documents have been officially issued. So the Ministry of Energy will run the process for the Baja to Sonora transmission line and the CFE will run the process for the Oaxaca center transmission line. Bids are due for both projects during the third quarter, but of course, those dates could still change.



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**Christian Audi** - Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

And Tania, that would be the bids are due on the third quarter, and then how long thereafter would you expect to hear the results? A month? A couple of months? Or weeks?

**Tania Ortíz Mena López Negrete** - Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer

It would be roughly about 1 month. So either within the same quarter or no later than the fourth quarter.

**Arturo Infanzón Favela** - Infraestructura Energética Nova, S.A.B. de C.V. - Chief M&A and Planning Officer

Christian, This is Arturo. In terms of M&A, we're currently participating in 3 projects, so activity's already started. And we will see more activity during the year associated with the in-service rate of the projects that could be for sale. Some of them are coming into operations at the end of the year, others at the beginning of next year. So that's why we will see some activity also later in the year.

**Christian Audi** - Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

And Arturo, they remain more on the renewable side of things? Or are you seeing that all also on other segments of the energy market? Or is it more focused on solar and wind?

**Arturo Infanzón Favela** - Infraestructura Energética Nova, S.A.B. de C.V. - Chief M&A and Planning Officer

They're more focused on renewables, but there are other projects on the mainstream side also.

**Christian Audi** - Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Okay. And then sorry, the last follow up. When -- can you just -- I couldn't hear very well the explanation about the nonrecurring expenses. Can you just repeat what were the 3 reasons for these higher-than-expected expenses, please?

**Manuela Molina Peralta** - Infraestructura Energética Nova, S.A.B. de C.V. - CFO

Sure. [Roberto] was explaining that the nonrecurring were related to mainly key 3 factors. One is some scheduled maintenance that we incurred in the fourth quarter that were not in other quarters. Those weren't in our plan, in our budget, for the days they took place in the fourth quarter. So it's nonrecurring for the next. Higher revenue that we recorded in the third quarter that is not in the fourth quarter. It is a true-up that in revenue for Guaymas-El Oro pipe. The other nonrecurring provision is related to expenses of the start-up of operations at some of our pipelines. And some of those expenses are not capitalizable under IFRS.

**Operator**

Our next question comes from the line of Jeremy Tonet with JP Morgan.



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**Jeremy Bryan Tonet** - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I just wanted to follow up a little bit on some of the earlier questions. And looking specifically at the fourth quarter '17 results versus the third quarter '17 results, and even they're coming a bit down quarter-over-quarter there, it is largely just that higher O&M that's a bit lumpy there? Or are there other items in play that we should be thinking about when we look forward here?

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

No. For the Gas segment, those are the main variances that we have between fourth quarter and third quarter.

**Jeremy Bryan Tonet** - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just the OpEx, okay, great. And then looking at the liquids storage business and further expansions there, and I was just wondering if you could provide a bit more color as far as how many market participants might be out there. How you see that kind of progression going forward, how deep the opportunity set could be for you, guys.

**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Jeremy, this is Tania. This market is evolving very, very quickly, because once the gasoline prices were liberalized, the different refiners and international traders started running to the market to be able to have a relevant position. So this year will be very relevant to develop infrastructures so that all of these new players can import their own products and take them to the market. We should see several other terminals be announced this year. The competition is -- it's a variety from -- we're seeing infrastructure funds; obviously, other mainstream companies like us; and even some of the refiners and traders are looking at developing infrastructure themselves. So it's pretty -- it's a variety of players, so we do believe that IEnova's experience and expertise puts us in a very good position to be able to develop some additional terminals similar to the deal that we did in Valero in Veracruz, Mexico City and Puebla.

**Jeremy Bryan Tonet** - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And it seems like with the bundle offering late last year, you guys were able to secure some very strong pricing there. I was just wondering if you guys are kind of happy with how your cap structure sits currently. Or if you might look to extend the duration of some of the credit maturities that you have -- the credit vehicles that you have on your balance sheet right now.

**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

That's a very good question. We are quite satisfied with the bond placement. I think that it was very good and we were able to extend the duration of those. And that's -- yes, we are taking a look to other possibilities of the things that we have already financed to see if we can extend the maturity and, obviously, lower the interest rates. So that will be a continuous effort, which we are already working with that.

**Operator**

Our next question comes from the line of Pablo Ordóñez with Itaú.

**Pablo Ordóñez** - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

I have a couple of questions. First, on your leverage situation, can you give us an update of where do you think that you have of your firepower to fund the CapEx rate for this year? And the other opportunities that you're seeing on the market, how much are you willing to leverage your balance





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sheet? And also, a second question would be regarding the Texas-Tuxpan construction. I just want to know if everything is on time and on budget and if you have had any legal issues related to local communities as it happened with the Sonora pipeline.

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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Pablo, regarding the current total debt that we have on our balance sheet, we believe that it is a comfortable level to keep investment grade. Keeping investment grade is a priority to IEnova in order to have access to all the markets and to continuously issue long-term debt that can meet our maturity of our contracts as well. So we're pretty well balanced this year. This 2018 will be a peak total debt because we have issued these long-term debts to fund or to repay short-term debts, the revolver line that we have. That line is being used to fund all capital commitments. This year, as Carlos indicated in the guidance, we will be funding \$730 million worth of investment in the different projects that we have under construction. We do also generate more than \$0.5 billion on cash from operations that will also be serving the capital commitments that we have this year. We, of course, as we find more growth to be funded, we plan to continue looking to the most efficient way to leverage this company. We are interested in not only extending the tenures of our debt, but also looking at [these issues] on the pricing of these debts.

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**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Pablo, on the Texas-Tuxpan pipeline, we continue to progress according to plan, to be in operations by the end of 2018. And we continue to work well and very closely with the communities in which we have presence.

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**Pablo Ordóñez** - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

I have one more question. Can you give us some color on the CapEx size for the 2 transmission lines that are expected to be auctioned, please?

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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Yes. It will be roughly \$1 billion each.

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**Operator**

Our next question comes from the line of Alejandra Obregon with Morgan Stanley.

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**Alejandra Obregon** - *Morgan Stanley, Research Division - Strategist*

I have 2 questions, the first one on the Power segment. It seems that revenue is down on a quarter-on-quarter basis rather significantly, and I was wondering if you could help us understand this trend? I mean, how much of this is related perhaps to seasonal wind patterns? Or is there any other issue driving this drop? And I can answer the second one after.

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**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Nelly?

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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Yes, you're right, there is a seasonality effect on Ventika. And a little bit lower wind factor as well over the year. In Nuevo León, where the project is located, the wind seasonality is, according to the studies that we have, that seasonality is to have high winds from March to August and low



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winds from September to February. So we will be looking into these estimations throughout 2018 as well. And we have considered the seasonality in our guidance for the Power segment.

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**Alejandra Obregon** - *Morgan Stanley, Research Division - Strategist*

This is very helpful. And then on the Marine terminal, I think this is finally hitting the numbers this year. But I remember we were only waiting for some approvals for Valero to buy the 50% stake at least, so I was wondering if there's any news there? And if we should still have that on the radar and how is that sale process going?

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**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Valero has an option acquire 50% equity of the project once it begins operation and, of course, subject to obtaining regulatory approvals. So you won't be hearing on a decision on that particular option until we reach commercial operation.

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**Alejandra Obregon** - *Morgan Stanley, Research Division - Strategist*

And perhaps, just a follow up on CFE and SENER options. Do you know what percentage of the rights-of-way have already been liberated by the government for these projects?

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**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

In the case of the Sonora to Baja, there are no rights-of-way that have been previously acquired. So it's fully the bidder's responsibility. In the Oaxaca Central, there's a portion of the rights-of-way that have been acquired, but information that is available from CFE is insufficient for us to understand if those acquisitions have been fully completed.

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**Operator**

Our next question is from the line of Jean Bruny with BBVA.

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**Jean Baptiste Bruny** - *BBVA Corporate and Investment Bank, Research Division - Research Analyst*

Just a couple of notes. Maybe if you can give us some more details on the Energía Sierra Juárez expansion that you have put into a presentation. You mentioned that you are looking for a partner. Can we expect InterGen, which is already a partner in the project in the first phase, to come along with you? And some ideas in terms of what investment is \$150 million, if -- can we assume it's in terms of capacity? And the second doubt I have is regarding the transmission lines. Are the contracts in the transmission lines identical to the ones we used to see in the pipeline business, i.e. in dollars, long term between 20 to 25 years with company? That will be all.

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**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

On the ESJ expansion project, it's a 108-megawatt project. The estimated CapEx is \$150 million, and it should be in operations by the third quarter of 2020. We are going through a normal regulatory approval process, which includes authorities both in Mexico and in the United States. InterGen, our partner, does have the ability to become part of this project, and we will let you know as we progress in those discussions. Regarding the transmission line project structure, these are build-and-operate projects. We will not own the transmission lines. The transmission lines will be placed in a trust and will be transferred to the government when the contract expires. It is a take-or-pay 25-year contract. The contract will be denominated in pesos. And this is -- obviously, we are evaluating how and if we will participate in these bid processes.



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**Jean Baptiste Bruny** - *BBVA Corporate and Investment Bank, Research Division - Research Analyst*

We can expect the same kind of T&O you used to have between 9% to 11% anyway?

**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Yes. We expect to maintain our target rates of return.

**Operator**

Our next question is from the line of Vinicius Tsubone with HSBC.

**Vinicius Tsubone** - *HSBC, Research Division - Analyst of Latam Utilities, Oil & Gas*

Could you please comment on the competitive landscape in Mexico for the next transmission project options? How do you see the competition for those?

**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

We -- of course, we do expect competition, but it will be a different competitive landscape than what we've seen in other projects. First, because they're very large projects, roughly \$1 billion each. They are complex projects, they're linear projects, 700 kilometers each. And qualification criteria is fairly high. So I do expect to see some of the very large international competitors, European, Asian, South America coming in. And I would expect companies to form consortiums to participate together in these processes.

**Operator**

Our next question is from the line of Frank McGann, a follow-up, with Bank of America Merrill Lynch.

**Frank J. McGann** - *BofA Merrill Lynch, Research Division - MD*

Just in terms of the Fibra financing, or doing a Fibra vehicle, I was wondering if based on the success that some other recent offerings have had, if you're thinking of putting some assets into such a vehicle at this stage?

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Carlos, do you want me to take that?

**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Yes, please.



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**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Yes, Frank, of course, we recognize a Fibra as a very good vehicle for the type of assets that we have, most -- and we have many assets that can qualify to be included in a Fibra E. And -- but of course, we are in a stage that with the continued growth, we may use this vehicle in the future. It's not a moment to -- for you to just realize that, but certainly it -- we will if it expands to an additional finance choice.

**Operator**

And our next question is from the line of [Alvin Castro] with (inaudible).

**Unidentified Analyst**

My question is regarding the results from the Gas segment. I would like to understand the -- you had mentioned that there are some lower capitalized interests that are affecting these one-offs. Is that correct?

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Very correct. Roberto, can you, please?

**Roberto Rubio Macías** - *Infraestructura Energética Nova, S.A.B. de C.V. - VP & Controller*

It's not interest. There are some expenses that under IFRS cannot be capitalized. So that's the reason there's no interest; it's other expense.

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

But in profits, yes, the capitalized interest is a factor. Yes, in profits, not on EBITDA.

**Unidentified Analyst**

Okay. And those expenses -- I mean, they came from the construction of the different projects that are now taking -- that are now going into operations. So we should expect to not have any further capitalization of expenses, right? Coming from those specific projects?

**Roberto Rubio Macías** - *Infraestructura Energética Nova, S.A.B. de C.V. - VP & Controller*

That's right.

**Unidentified Analyst**

And the other question is the Costa Azul facilities have now turned into liquefaction facilities is that, right? Was this CapEx already in budget?

**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

We are in the process of evaluating and making a final decision. So we have not made a final investment decision, and we have not disclosed any CapEx figures, so they would not be included in any of the numbers that you're seeing. At this stage, we, as I mentioned, we obtained a key Mexican federal permit, and we are beginning with our marketing efforts to determine what the timing and the size of the terminal should be.



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### Operator

(Operator Instructions) And our next question is, from the line of José Vasquez with (inaudible).

### Unidentified Analyst

My question is regarding the CapEx required for the liquefaction plant on Costa Azul, the transformation. How much would you need to conclude -- to proceed?

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Can you repeat your question, José?

### Unidentified Analyst

Sure. It's the CapEx required for the transformation process of the Costa Azul facility to liquefaction.

**Manuela Molina Peralta** - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

we're still evaluating. Since we're evaluating the size of the new project, we have still not determined the CapEx for that project.

### Operator

Our next question is from the line of Barry Klein of Macquarie.

### Barry Klein

I just wanted to get a sense on -- with the -- following up on the last 2 callers, the liquefaction project and what the market should expect in terms of timing of additional communication? Or as follow-ups from your side, what can we expect in terms of timing of more visibility and comments from you guys?

**Tania Ortíz Mena López Negrete** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

We do expect to make substantial progress on the definition of the project throughout this year. As you're aware, this project takes a very long to develop. We worked on the permitting for almost 2 years until we were able to obtain the key, the initial permits, but we do expect to make substantial progress on the definition this year.

### Operator

And I'm not showing any questions in the queue. I would like to turn the call back to Carlos Ruiz Sacristán for his final remarks.

**Carlos Ruiz Sacristán** - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you. Thank you, again, for your interest on the call. In summary, we are pleased with our 2017 results and our prospects for growth for 2018. Please contact the Investor Relations team if you have some more questions. Thank you very much for your time.

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### Operator

And with that, ladies and gentlemen, we thank you for participating in today's conference. This concludes the program, and you may all disconnect. Have a wonderful day.

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