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Q2 2019 Infraestructura Energetica Nova SAB de CV Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen, and thank you for standing by. Welcome to the IEnova Second Quarter 2019 Earnings Conference Call. (Operator Instructions). Now it's my pleasure to turn the call to Sue Bradham, Director of Investor Relations.

Susan Bradham *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR*

Good morning, and thank you for joining us. First of all, I would like to introduce you to and welcome Miguel Osio, who has been responsible for M&A at IEnova. He's also taking over the Investor Relations role, as I transition back to Sempra this summer. I will now turn the call over to Miguel.

Miguel Osio *Infraestructura Energética Nova, S.A.B. de C.V. - Director of M&A and IR*

Thank you, Sue, and best of luck in this new chapter. Good morning. Today, we will be discussing IEnova's second quarter 2019 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, July 25, 2019, and the company does not assume any obligations to update or revise any of the forward-looking statements in the future. With us today on the call are several members of our management team: Carlos Ruiz, Chairman; Tania Ortíz, Chief Executive Officer; Nelly Molina, Chief Financial Officer; Abraham Zamora, Chief Corporate Affairs Officer; and Roberto Rubio, Vice President and Controller.

Please turn to Page 3 of the presentation, and I will turn the call over to Carlos.

Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President*

Thank you. And good morning to everyone. Before discussing our second quarter financial results, I would like to provide some updates regarding the Marine and the Sonora pipelines. As you may remember, last February, the government made certain claims regarding the 7 pipelines contracted by CFE that are under force majeure. Immediately after, we met with the CFE to have a cordial discussion about our 2 affected pipelines. Those discussions and later ones were mainly focused on resolving the social issue affecting the Sonora pipeline.

We express our willingness to continue speaking with CFE and the authorities to find a prompt resolution to these issues. Nevertheless,

there was a discussion about the contract terms.

On June 11 together with TC Energy, we announced the completion of construction of the Marine pipeline.

On June 24, IMG, our joint venture company, received a request for arbitration from CFE, through which is requested certain payments as well as a nullification of certain contract clauses that referred to the parties' responsibilities in cases of force majeure.

Immediately after, President Lopez Obrador met with the Presidents of the 2 leading national business chambers, the Consejo Coordinador Empresarial (CCE) and the Consejo Mexicano de Negocios (CMN), in which they raised their concerns regarding CFE's actions, specifically about the Marine pipeline. The federal government established a dialogue group to start discussions about the matters raised by CFE.

The group is composed of his private secretary, the President's private secretary, CFE's CEO, the President of CCE and the President of CMN, and a representative of each of the pipeline companies. Tania is IEnova's representative. For this purpose, we are having regular meetings.

We expect to reach a positive solution in the short term and hopefully eliminating the uncertainty that this has generated.

I now will pass the call over to Tania, who is participating as IEnova's representative in those meetings and provide more information about the current situation.

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

Thank you, Carlos, and good morning to everyone. I know these recent events have generated a lot of concern, and we are putting all of our efforts to protect the interest of our company and our investors. Since the discussions are ongoing, there are some things that we cannot disclose, but I will try to provide additional insights.

I would first like to highlight that the government has clearly stated that they want to reach an agreement soon and of course, so do we. Regarding the Marine Pipeline, we have fully complied with all of our contract obligations, and we have notified CFE about the completion of the pipeline.

However, we are still waiting for CFE's letter of acceptance to be able to begin operation. Regarding the second segment of our Sonora Pipeline, in July, the court ruled that the Yaqui Tribe was properly consulted, and that consent from the Yaqui Tribe was properly received.

If the Yaqui's appeal the ruling, the suspension order preventing IEnova from repairing the pipeline will remain in place.

Although the ruling is still subject to appeal, this is a very important step forward for reaching a solution. After the ruling, the Ministry of Interior held a meeting in Sonora to reestablish dialogue with the Yaqui community. We reaffirm our commitment to work with local and federal authorities and with the community to have the conflict resolved and the pipeline operating again.

We are also working with CFE to reach an agreement to extend the force majeure period on the Sonora Pipeline.

As you know, we also received a request for arbitration from CFE in the Sonora Pipeline.

Although we just received notice, this request for arbitration was filed around the same time as the other pipelines that are involved in the discussion. The arbitration demand has the same requirements as the Marine pipeline.

Please turn to Page 4. I would now like to highlight some of our recent accomplishments.

We placed Rumorosa Solar, our second solar project into service.

Now we have 151 megawatts of solar generation in operations and another 225 megawatts will be completed this year.

Also, in June, we announced an expansion plan at EcoGas, our distribution utility to connect approximately 40,000 new customers during the next few years.

We have continued making progress on refined product storage terminals. On our last earnings call, I mentioned that we executed 2 long-term contracts for the Manzanillo terminal and the Guadalajara terminal, which continues under development.

In June, we announced that BP was the off-taker of these contracts.

Also in June, we announced another long-term contract with Marathon for new capacity at the Manzanillo terminal. With these new contracts, we now have a total committed investment of more than \$1 billion and a total capacity close to 8 million barrels in our refined products terminal.

This investment continues to demonstrate IEnova's commitment to the development of necessary and critical infrastructure for Mexico.

I would now like to turn the call over to Nelly to discuss this quarter's financial results and construction progress.

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

Thank you, Tania, and good morning, everyone. Please turn to Page 5.

In the second quarter of 2019, adjusted EBITDA increased 3% to \$225 million dollar, compared with \$219 million dollar in the same period of 2018. This increase was mainly due to higher operational results at the TDM power plant and the contribution from Pima Solar, which started operations in the first quarter. In the second quarter of 2019, profit was \$113 million dollar, compared with \$102 million dollar in the same period of 2018.

The increase in profit was mainly due to non-cash exchange rate effects as a result of the depreciation of the Mexican peso in the second quarter of last year, and TDM higher operational results.

Regarding our adjusted EBITDA guidance, for the year, we maintained the range of \$935 million to \$990 million dollar, assuming no impacts from the pipeline contracts that are under discussion with CFE, which are the Marine and Guaymas -- El Oro pipelines.

In our guidance, we assumed that the Marine Pipeline would start operations during late second quarter. So depending on the final date of commercial operations, we may see an adjustment to our guidance.

In the past few years, we have been making the decision about dividend distributions at our July Board meeting. Let me remind you that we have been paying dividends for the last 7 years, and it is our intention to continue paying dividends. We will present our recommendation of dividends to the board in the next meeting in October.

Now please turn -- to Page 6. We continue making progress according to plan on the 9 projects we have under construction.

During the second quarter, we finished construction on 3 projects: Rumorosa, Tepezalá and the Marine Pipeline. Tepezalá Solar is in commissioning activities, and should start commercial operations in a few weeks.

Our 6 refined products for terminals are on track. At the Manzanillo terminal, we added a new customer and increased the capacity of the terminal.

For this reason, our CapEx for this project increased to \$285 million, and its new commercial operations date is now scheduled for the first quarter of 2021. With that, I'll turn the call back to Tania, and please go to Page 7.

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

Thank you, Nelly. I'm pleased to mention that during May, we published our 2018 Sustainability and Financial report called, Facing the future. I'm very proud of IEnova's evolution and its achievements in every aspect of environmental, social and economic issues.

Finally, one of our top priorities right now is to reach a quick positive outcome with CFE, and as Carlos mentioned, hopefully, eliminate the uncertainty that this has generated. Additionally, we will continue bringing our shareholders, employees, customers and communities the value that has characterized us for more than 20 years of hard work. Now I would like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Álvaro García with BTG.

Álvaro García *Banco BTG Pactual S.A., Research Division - Research Analyst*

Hi IEnova Team, thanks for the call. Tania, I was wondering if you could -- first off, just clarify the comments you made on Sonora, on the Yaqui's being able to appeal. What's going on today going forward? And how that could impact the case? You did mention that there was progress to be had there? That's my first question.

My second question also on CFE, just from a qualitative perspective, Tania or Carlos, I was wondering if -- how receptive has CFE been? How willing are they to find a solution quickly? And ultimately, what do you think they are after? Thank you.

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

Good morning Alvaro, Thank you for your questions. Regarding the Sonora Pipeline, as you may recall, we -- the Yaquis presented an amparo, which claims that the consultation to the indigenous community process has not been appropriately held. What the judge ruled a few weeks ago is that the process was appropriate, and therefore, the amparo that was promoted by this group of Yaquis was rejected. The Yaquis do have the opportunity to appeal the ruling in the next few days. So we are waiting to see what decisions they take. But in any case, we will continue talking with them and trying to find a solution, and we are seeing support from the government in reaching out to the Yaquis and again, finding a solution. But the resolution of the amparo, the initial resolution, it is a very important step forward in having a definitive solution in putting the pipeline back in operations.

From a -- regarding the discussions with CFE, we are meeting very frequently with CFE at the dialogue table, in which, as Carlos mentioned, there's a representative from President López Obrador and the Head of the 2 largest business Chambers in Mexico. And I would say that the tone of the table, without any doubt, has been the intent to reach a solution quickly, which is, of course, has to be positive for both parties.

Álvaro García *Banco BTG Pactual S.A., Research Division - Research Analyst*

Okay. That's clear. And just, I guess, one quick follow-up would be sort of their intention. So what CFE is ultimately after? Is it -- in terms of the payments that they -- they are asking for the arbitration.

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

Alvaro, I mean, we've -- I think we've disclosed -- the purpose of the arbitration is to annul certain clauses in the contract that has to do with force major provisions and CFE is also demanding certain payments. But again, the purpose of the dialogue is to avoid arbitration, to find a solution at the table.

Operator

Our next question comes from Christian Audi with Santander.

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

Thank you, hello Carlos, Tania and Nelly, I had a few questions on the same topic of Sonora and the Marine Pipeline. Going back to your comments, Tania, on the Sonora pipeline. Is there a specific deadline for the community to appeal? Or no, this is -- you can't take them? I'm just trying to get a sense of timing. And if they don't appeal, does that mean that given the judge's ruling that you can have access to the pipeline and to fix it? And how quickly could that happen? In other words, if there is no appeal, how quickly can you get to the pipeline and fix it so that you get Sonora restarted?

The second question that I had, with respect to the CFE was, why all this is happening? Has the CFE through July or through June continue to make payments, both for the Sonora and the Marine pipelines, please?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO

Good morning Christian. Let me -- regarding the Sonora Pipeline. But normally, in an amparo process is that plaintiffs have 10 working days to present an appeal. But the day start counting when the plaintiff was directly notified of the resolution. So we don't know exactly when those 10 working days would expire. Once if they do not present an appeal and we don't know how they will react, of course, the amparo would -- I mean would be completely -- would have no grounds. And then at that point, we would again, be sitting down with the Yaqui communities, ensure that we address -- their concern. The construction itself should not take longer than a month, but we need to ensure, in any case, that we address their concerns.

Now with regards to payments, we have continued to receive payments in Sonora. With regards to the Marine Pipeline, if you recall, we had a force majeure that was accepted by CFE until April. So we received payments from CFE until April

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

Got it. And I see, okay. So if the -- if there is no appeal -- sorry, going back to Sonora. If there is no appeal, you still have to sit down with the community, so it's not as quick a process as it could be, used to have to have conversations, and it's only after that, that you would be able to, hopefully, have access to the pipeline, fixed it and restarted it, correct?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO

Yes. I mean, regardless of any litigation, anywhere that we construct, we always have to ensure that we are in good terms with the community and we satisfy their concerns. So this is a little different.

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

Great. And my last question. When it comes to international arbitration, in your history, Mexico has -- there ever been any precedent like this that would give us a sense of if these have to go into international arbitration, how long these processes could take? Or there is no precedent?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO

I'm not sure that we could talk about a similar precedent. But what I can tell you is that our contracts are very strong and we're very confident about the provisions in our contracts. So right now, again, the focus is on the dialogue table. But our contracts are very, very strong.

Operator

Our next question comes from Jeremy Tonet with JPMorgan.

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

Hi, good morning. Just was hoping you might be able to clarify a little bit when you were talking about resolutions being a near-term event or taking a short period of time, as you qualify the discussions with CFE there. By that, do you mean like a 2019 event or a 2020 event? Or is there any way you can kind of clarify a little bit more what you meant kind of near-term resolution might look like?

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

I would not like to commit to a certain deadline. But I mean, we definitely have to see a resolution soon. I would not see this dragging on to next year.

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

That's very helpful. And sorry, if I missed it, but with the Marine pipe JV, when you -- CFE requested arbitration there, has IEnova accepted arbitration? Or are there any reasons not to pursue there? Or did I miss that part there?

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

Well, in arbitration, either party has to request the arbitration, can request the arbitration. We're in the very early stages of signing or appointing the arbitration panel. But again, the focus is on finding a solution at the dialogue table, not through arbitration.

Operator

Our next question comes from Vanessa Quiroga with Crédit Suisse.

Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Thank you to the IEnova team for hosting this call. My questions are regarding on the financial side. If the dialogue table extends during most of this year, is there a specific strategy to cover for a lack of payment from CFE during this time? How has the conversations been with the credit agencies regarding the cash flow situation? Thank you.

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

Hello Vanessa, good morning this is Nelly. As I said, depending on the final commercial operations date for the Marine Pipeline where we can effectively collect revenue, we for now, cannot determine what the impact might be. But effectively, the pipeline is not collecting revenue. For this year and for our credit metrics, we don't foresee a real impact because our credit metrics right now, 3.8x net debt-to-EBITDA is stable. And we don't necessarily assume distribution of the events or repayment of the loan this year from the Marine Pipeline.

Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Okay. Okay, I see. Excellent. And just to clarify on the Sonora payments, so you received the payment in April. Was that for the full quarter? Or was that the last month -- monthly payment that you received?

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

No. Vanessa, in Sonora, we have continued to receive payment.

Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Okay. I'm sorry, I misunderstood. Thank you.

Operator

Our next question comes from Pablo Monsivais with Barclays.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Hi, good morning IEnova team. My question is similar to that of Christian, in terms of timing. What are the most important dates that we have to keep in mind on all these negotiations on both the Marine Pipeline and the Sonora Pipeline?

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

I would say, just -- I mean, finding a quick resolution to the entire discussion around the 2 contracts, both Sonora and the Marine pipeline. So I would not say there are any key deadlines. But I can tell you that all of them involves parties, for us and for everyone. This is a priority. We're meeting several times a week. So I mean, we're just pushing forward as quickly as we can.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Ok, thank you.

Operator

Our next question is from Mauricio Serna with UBS.

Mauricio Serna Vega *UBS Investment Bank, Research Division - Analyst*

Hi, good morning IEnova team and thank you for taking my question. A couple of things. I think you mentioned at the beginning something about the dividend that usually present the recommendation in July and now you will present it in October, would that maybe mean that you're considering a lower dividend payment depending on how the negotiations on the pipelines evolve? And then regarding the Sonora pipeline, the timing seems quite off for this arbitration case to come up? So just the question here is, if you get the positive resolution -- I mean, you've gotten a positive resolution from the judge and you're just waiting for the -- to see if there are any appeals. But if that doesn't happen and you fix the pipeline, can it begin operating again? And you begin receiving the payments despite the ongoing arbitration discussion that they want to do? That would be it.

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

Regarding the dividend, yes, in the past, we declared the dividend in July. I mean, one year, it was in October. Now we made distributions that you may know every year since our IPO and we plan to make our recommendation for the board in October. At this time we just considered prudent to have these discussions until we have more clarity on the potential outcome from the dialogues with CFE. If not, you would not expect it to change this, we see ourselves as a dividend payer company.

So we don't plan to change anything at this moment.

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

Good morning Mauricio. Regarding the Sonora pipeline, when it goes back -- once it goes back in operation regardless of the arbitration under the contract, we should continue to receive payments. So the arbitration process does not stop CFE from making payments.

Mauricio Serna Vega *UBS Investment Bank, Research Division - Analyst*

Ok, thank you very much.

Operator

Our next question comes from Barry Klein with Macquarie.

Barry Klein *Macquarie*

Thanks for taking my call and the visibility you provide. I guess, we have a few investments in Mexico. I'm sure, like a lot of the people on the phone, and like the market and it seems like many of the analysts on the sell side, we're obviously concerned with the potential revise these agreed upon contracts in a negative manner.

So I'm just curious if in the working group that Tania has been a part of, that's been created sort of to work through some of these issues. Do you feel that the government understands and has considered the broader read-through that investors are making to their investments throughout Mexico?

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

Barry, good morning. I think the business chambers have been very clear on what their implications of this discussions are. The business chambers, in fact, became involved in the process, because -- again, they want to see a quick resolution. And they do see these issues potentially impacting other businesses.

Barry Klein *Macquarie*

Ok, thank you very much.

Operator

And our next question is from Alejandra Obregon Martinez with Morgan Stanley.

Alejandra Obregon Martinez *Morgan Stanley, Research Division - Research Associate*

Hi good morning. Thank you for taking my question. I was just wondering if you could walk us through the contracts and particularly the force majeure of clauses. Meaning, what are like the different rights and obligations that CFE and IEnova have for a pipeline in force majeure? And I would imagine there's a different treatment for pipeline under construction than that from one that it's operating. So I guess that goes back to the Sonora Pipeline treatment and the Marine Pipeline? And what's happening with regards to the payments for CFE? So any color around this would be very helpful.

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

Good morning Alejandra -- obviously -- I mean the force majeure provisions in the contracts are fairly long and fairly complex, but I'll try to summarize it in this way. The force majeure provisions in these contracts, as in any other contracts, establish that when there is an event that was not caused by one of the parties and beyond the control of the parties, the parties would not have any obligations, meaning, CFE has no obligation to pay and we have no obligation to provide service.

That would be your standard force majeure clause. And that would be the type of provision that would apply, for example, in case of a natural disaster, a storm, a flood, a hurricane, an earthquake, for example.

The contract also includes certain force majeure provisions that are associated with acts or omissions of a government authority.

The most basic example is not obtaining a permit in spite of our best efforts and our diligence.

In those cases, we are entitled to receive payment, and CFE has the obligation to receive -- to pay us, even if we are not operating.

Now in any case, CFE will only make 25 years of payment. We have the obligation to provide the service that CFE paid for in advance at a later date. So in a nutshell, those are the force majeure provisions.

Alejandra Obregon Martinez *Morgan Stanley, Research Division - Research Associate*

Thank you. And just a quick follow-up, is there a possibility that any of the parties can -- through a cancellation of the contract in any circumstance? Or is there a scenario where that happens?

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

There are provisions in the contract that allow for termination and obviously, depending on which party had the responsibility for the termination, then obviously, payments are due to the other party.

Alejandra Obregon Martinez *Morgan Stanley, Research Division - Research Associate*

Understood, very clearly. Very clear. And just a final question, very brief. On TDM, if I'm not mistaken, volumes were down around 15% to 20%. I'm just wondering if you could provide some color on what's going on.

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

Yes, TDM, second quarter was kind of different in terms of volumes compared to the first quarter of this year because certain market conditions have changed in California, where we have some factors associated with the weather.

And of course, you know that these assets is -- we can ask for these exactly the performance.

We expect to see a more normal performance similar to the average of the past years.

Alejandra Obregon Martinez *Morgan Stanley, Research Division - Research Associate*

Understood, very clear. Thank you.

Operator

And our next question comes from Jean Bruny with BBVA.

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

Thank you all for taking my questions. I just have a couple of doubts. First of all, I just want to clarify with you that the 9% to 11% interest rate of return that you've been used, it's a negotiation which remains?

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

Can you please repeat the question, JB?

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

Yes, so. Can you hear me better now? Yes. Just want to make sure about the interest -- internal rate of return, that it will remain in the 9% to 11% boundary that you've been using forever since the beginning despite of the negotiation? And the second question was regarding the ECA project. There's some changes due to the ongoing negotiation. Or it will remain the same with a decision to be made by the end of this year? Thank you.

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

Good morning JB. I mean, our rates of return, again, they remain between 9% to 11% in all of our projects, including the projects that are under discussion with CFE. Regarding ECA, we remain on track for a final investment decision by the end of this year. As you may recall, we're working on several fronts that are progressing in parallel. First is finalizing our engineering so that we can have a definitive CapEx for the project.

Second, working with potential partners to execute definitive contracts and execute -- and executing a JV agreement. And finally, filing for the export permit in Mexico, but we remain on track to reach that final investment decision by the end of 2019.

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

Thank you very much.

Operator

And our next question comes from Chelsea Colon with Aegon.

Chelsea Colón *Aegon Asset Management - Credit Research Analyst of Emerging Markets*

Hi and thank you for the call. Can you please just clarify for me what's included in your short-term debt? Which I believe is about \$870 million.

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

Yes Chelsea, good morning. This is Nelly. Short-term debt typically is associated with a revolver debt that we draw on to pay for CapEx commitments this year.

Chelsea Colón Aegon Asset Management - Credit Research Analyst of Emerging Markets

I had thought, though, that you extended the term of the revolver to 2024. So I'm wondering why it's still within the short term?

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

Yes, it's an accounting treatment that we agree with our external auditor, and we typically show it in the short-term liabilities.

Chelsea Colón Aegon Asset Management - Credit Research Analyst of Emerging Markets

So do you have to repay it each year before drawing, again, even though the final maturity is 2024?

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

The reason is because this -- it is a revolver. We typically, we pay that while we expand the debt using other instruments throughout the years.

And that's the reason why we do that.

Chelsea Colón Aegon Asset Management - Credit Research Analyst of Emerging Markets

Okay. Got it. And can you also please just tell me again, what you stated as the EBITDA guidance for the year that you have right now?

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

Yes. Our range in our guidance for the year is between \$935 million to \$980 million. And it is adjusted EBITDA. And it does include, yes, a certain time for the Marine Pipeline.

Chelsea Colón Aegon Asset Management - Credit Research Analyst of Emerging Markets

Ok, thank you.

Operator

Our next question is from Vanessa Quiroga with Credit Suisse.

Vanessa Quiroga Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil

Thank you. My follow-up is regarding the talks with CFE. In the specific, there is -- they held their first conference when the talks started. And they said that they wanted to present on the table the possibility of rethinking the payments related to force majeure. They were even talking about discussing the ownership of the pipeline once the contract got to its end. And they mentioned -- and obviously, there is an amount that is public on the media that they are requesting.

So is it possible at this point to share how the discussions have been narrowing down into more specific asks from CFE? Or is this something that you prefer not to discuss at this point.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO

Thank you Vanessa. Yes. I mean, I truly believe that, at this point, it's prudent not to disclose more information because we are at the table, discussing and trying to find a solution. I hope to be able to provide a much better insight soon, as soon as we've come to a definitive resolution.

Vanessa Quiroga Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil

Ok, that's understandable.

Operator

[Operator Instructions] Our next question comes from Joe Hogan with Scotiabank.

Joe Hogan Scotiabank

A few questions about Sonora. Tania, I'm not sure if I understood you correctly. But in your opening remarks, you mentioned that you're working with CFE to extend the force majeure period. So does that mean that it expires for some time and that they'll offer to extend it in return for some other concessions? So that's one question. And then with regards to the appeals process, is there a reason why the Yaqui wouldn't appeal? And if they did appeal, does this being another year or more or less that we'd be waiting for this?

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

Thank you Joe. Those are 2 good questions. Regarding Sonora, as you may recall, in August our force majeure under this specific event related to the amparo, will reach its 2-year deadline. So that's why we're continuing discussions with CFE to extend that deadline because, of course, we continue to have a force majeure situation. With regards to the appeal, we have a very good point.

Why would the opposers of the pipelines not appeal? But I think that's a question that we need to ask them.

Again, we're waiting to see how they act. If they do appeal, there is no certain or no set deadline for the court to rule the appeal.

So it may be a couple of months, but it may take longer.

Joe Hogan Scotiabank

All right thank you very much.

Operator

Our next question comes from Pablo Ordóñez with Itaú BBA.

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

Hi good morning to all of you. A couple of questions on my side. How is the outlook for the Liquids business in the second half of the year? Do you expect to announce more projects? And also, regarding the expansion of your natural gas distribution business, are you seeing more opportunities? And what is the CapEx for the current expansion? Thank you.

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

Regarding our Liquids projects, we continue to see a lot of appetite. We announced new contracts for the Manzanillo terminal, an expansion of, for Manzanillo terminal. And we are very actively working on new opportunities for new refined products terminals.

So that's a business line that I'm very excited about, and we've put together really a very solid business around that opportunity.

We are also continuing to make progress on our solar projects, with a very high-quality industrial offtakers in Mexico. So that's what's in our view short term. With regards to EcoGas, there is a large potential market in/or EcoGas distribution areas, which we have not yet served. So we decided to put more attention in that market and in a sense, speed up the growth.

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

Okay. And the CapEx for the current expansion, do you have a number, Tania?

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

For the next few years, it will be \$40 million. It's a smaller business. As you know, the distribution business.

Operator

(Operator Instructions) And we have a follow-up from Pablo Monsivais with Barclays.



Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

This is probably an unfair question, but how do you guys see internally, the likelihood of obtaining the extension of the force majeure contract on Sonora while you have the CFE being vocally against this type of clauses? I mean, it's a bit odd to see these both happening at the same time, no?

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

Pablo, we're having constructive discussions with CFE around that particular topic.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

So meaning that they are open to continue and have these done and moving forward with this as well.

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

They -- I would say, they appear to be open to have this discussion, yes.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Ok, thank you.

Operator

And our next question is from Christian Audi with Santander.

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

Tania, going back to the ECA project, can you remind us when are you planning to file for the export permit?

And can you talk a little bit about your conviction on your ability to successfully secure it? I know in the past, you've mentioned that it should be a straightforward process. But can you provide us an update on that, please?

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

Thank you, Christian. Our target to request that permit is in the third quarter of this year. We believe that it's reasonable to assume that we can obtain that permit. We're reexporting gas that we will be bringing in from the U.S., so we don't expect an objection in that regard.

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

And this topic has not -- it's apples and oranges to everything that's being discussed with the CFE. In other words, this hasn't come up at all during your discussions, this is correct?

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

Not at all. We have not seen the discussions with CFE affect this permit or any of the other projects that we're working on in Mexico.

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

Ok, thank you.

Operator

Our next question comes from Mauricio Serna with UBS.

Mauricio Serna Vega *UBS Investment Bank, Research Division - Analyst*

Hi, thanks for the follow-up. Just one quick number I wanted to check. You did keep your full year guidance of \$935 million to \$980 million.

So I just wanted to check, that would assume that in order to meet the lower range of the guidance, you have to have the JV up and running, probably by the end of the third quarter. Just to -- just making sure that I have the assumptions right?

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

Hello Mauricio. This is reasonable. Yes.

Mauricio Serna Vega *UBS Investment Bank, Research Division - Analyst*

Ok, thank you.

Operator

Our next question is from Chelsea Colon with Aegon.

Chelsea Colón *Aegon Asset Management - Credit Research Analyst of Emerging Markets*

Just one follow-up on the force majeure at the Sonora pipeline. If the force majeure period is not extended by CFE, does that mean that the contract gets canceled? Like what would be the implications of that?

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

Hi Chelsea. IEnova would have the right to terminate the contract. But again, our intention is to expand the contract.

Chelsea Colón *Aegon Asset Management - Credit Research Analyst of Emerging Markets*

So then in that case, you would have the right to some sort of payment from CFE? Or no?

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

That is correct.

Operator

Our next question is from Michael Lapidés with Goldman Sachs.

Michael Jay Lapidés *Goldman Sachs Group Inc., Research Division - VP*

Easy question for you. When you're thinking about Costa Azul, both for the small-scale project and the large-scale project, how are you thinking about the best routing of pipeline capacity to get gas to the project? Especially for the large-scale one. I assume, the small-scale one doesn't need pipeline capacity, but for the large scale one. And I know it's a long way off, but how are you thinking about how you actually get the gas there? And what's the optimal route for the pipe?

Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President*

Well, this is Carlos. How are you? This is precisely one of the more important points for any LNG project, how to deliver gas in the most efficient ways. So there are several alternatives to do it. The -- all those alternatives, especially for the ECA Phase II, requires building a very important pipeline. It's mainly in Mexico.

So with that, we have been studying that. We have different alternatives, and still we are on time to make a decision. This has to do not only with the capacity to the pipeline, it has to do also with the size, the optimal size of ECA Phase II, no? So that's an important thing, but we are on track, making all the studies we need..]

Michael Jay Lapidés *Goldman Sachs Group Inc., Research Division - VP*

And if you build the pipeline mostly in Mexico, and I assume what you're saying is Permian gas that would start going south out of the Permian and then cut southwest to get to your facility. Do you -- how do you get comfort around avoiding some of the siting, permitting and archeological challenges that other pipelines go into large swathes of the country have faced over the last 2 to 3 years?

Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President*

Well, in the case of the routes in Mexico, that part of -- we don't really have a lot of sites, is more social, social issues that has to be -- but I remember, one of the things that we have done in the past at IEnova, have all the teams to really work and solve this social thing in

order to get the permit. So we are quite confident that we can do it, but what we have to -- what is the optimal route and at what capacity that pipeline should have .

Operator

(Operator Instructions) All right. And I don't see any further questions in the queue, I would like to turn the call back to our CEO, Tania Ortíz.

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

Thank you, everyone, for joining our call, and please feel free to reach out to our IR team if you have additional questions. Good morning to everyone.

Operator

And thank you, ladies and gentlemen. This concludes the program, and you may all disconnect. Have a wonderful day.

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