The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

Annual report pursuant to the Mexican Rules for Securities Issuers and for Other Securities Market Participants, or the year ended December 31, 2017.

Infraestructura Energética Nova, S.A.B. de C.V.

Paseo de la Reforma 342, Piso 24
Col. Juárez
Ciudad de México 06600
www.ienova.com.mx

As of December 31, 2017, Infraestructura Energética Nova, S.A.B. de C.V. (the "Company") had 1,534,023,812 shares of a single series of stock outstanding, of which 5,000 were Class I registered shares of common stock, no par value, representing the fixed portion of the Company's capital and 1,534,018,812 were Class II registered shares of common stock, no par value, representing the variable portion of the Company's capital.

The Company's shares are registered with the Mexican Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*), under registration No. 3420-1.00-2013-001, and are listed for trading on the Mexican Stock Exchange (*Bolsa Mexicana de Valores*) under the symbol "IENOVA."

As of December 31 2017, the Company had a program for the issuance of up to Ps.12.8 billion in domestic senior notes (*certificados bursátiles*), or Notes, which was approved by the Mexican Banking and Securities Commission pursuant to official communication No. 153/6298/2013. The Company has two series of Notes outstanding under this program as of December 31 2017, which are listed for trading on the Mexican Stock Exchange under the symbols "IENOVA 13" and "IENOVA 13-2". The series "IENOVA 13-2" was paid at maturity on February 8, 2018.

Registration with the Mexican Securities Registry does not imply any certification as to the investment quality of the Company's securities, solvency or the accuracy or completeness of the information contained in this report and such registration does not ratify or validate acts, if any, undertaken in contravention of applicable law.

Terms and conditions of the Notes:

"IENOVA 13"

Amount of Issue: Ps.3.9 billion.
Issue price: Ps.100.0 each.
Issuance date: February 14, 2013.
Maturity date: February 2, 2023.
Term of Issue: Up to 3,640 days, or approximately 10 years divided into 20, 182-day periods.
Interest; determination procedure: These Notes accrue interest at a fixed, annual gross rate of 6.30%, as determined based on the face value thereof.
Interest payment dates: Ordinary interest on the notes are due and payable every 182 days in accordance with the payment schedule.
Principal and interest payment place and method: The Company makes all payments of principal and interest under the Notes by electronic wire transfer through the facilities of S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., or Indeval, located at Paseo de la Reforma No. 255, Tercer Piso, Colonia Cuauhtémoc, Delegación. Cuauhtémoc, 06500 Ciudad de México, upon surrender of the relevant certificate or evidence of its deposit with Indeval. Indeval distributes the proceeds from each such payment to the accounts designated to such effect by its participants, for their subsequent distribution to the note holders.
Repayment of principal: The company will repay the principal amount of the Notes in a single installment on the Maturity Date.
Early full Repayment of Principal: The Company may prepay all (but not only a portion) of these Notes at any time beginning on the fifth anniversary of the Issue Date.
Collateral: The Notes are secured by all of the Company's assets as a whole, rather than by a specific item of collateral.
S&P rating of the issuance: "mxAAA", which is the highest issuer credit rating assigned by Standard & Poor's, S.A. de C.V. under its CaVal scale and is indicative of the issuer's very strong capacity to meet its financial commitments relative to other domestic issuers. The rating does not constitute

an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Standard & Poor's, S.A. de C.V.
Moody's rating: "Aa1.mx", which is a strong rating relative to other Mexican issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Moody's de México, S.A. de C.V.
Joint Representative of the Note holders: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero.
Depositary: Indeval.
Taxation: Interest payments on the Notes are subject to Mexican income tax withholding at the rates specified in the following provisions: (i) in the case of individuals and entities who are Mexican residents for tax purposes, articles 18, 135 and other related provisions of the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*), as currently in effect; and (ii) in the case of individuals and entities who are non-Mexican residents for tax purposes, articles 153, 166 and other related provisions of the Mexican Income Tax Law, as currently in effect. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in the Company's Notes, including the specific rules applicable to them in light of their individual circumstances.
Negative Covenants: Until such time as the Notes have been repaid in full, the Company may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an acceleration event under the Notes. The terms of the Notes do not contain any negative covenant with respect to changes in the Company's control, or to the sale of the Company's indispensable assets or the creation of liens thereon.

"IENOVA 13-2"

Amount of Issue: Ps.1.3 billion.
Issue price: Ps.100 per Note.
Issuance date: February 14, 2013
Maturity date: February 8, 2018
Term of Issue: Up to 1,820 days, or approximately 5 years divided into 65, 28-day periods.
Interest; determination procedure: These Notes accrue interest at a gross annual rate equal to the 28-day Mexican Interbank Balanced Interest Rate (*Tasa de Interés Interbancaria de Equilibrio* or "TIIE") plus 0.30%. The amount of interest is determined by the Joint Representative of the Note holders using the following formula:

$$CRR = \left[\left(1 + \frac{RR}{36000} \times T\right)^{\frac{NDE}{T}} - 1\right] \times \left[\frac{36000}{NDE}\right]$$

Where:

CRR	=	Capitalized Reference Rate for the number of days actually elapsed during the relevant interest period;
RR	=	Reference Rate (i.e., Mexican TIIE or any successor rate);
T	=	Term of the TIIE (or any succesor rate) in number of days; and
NDE	=	Number of days actually elapsed during the relevant interest period.

Interest payment dates: Ordinary interest on the Notes are due and payable every 28 days.
Principal and interest payment place and method: The Company makes all payments of principal and interest under the Notes by electronic wire transfer through the facilities of Indeval, located at Paseo de la Reforma No. 255, Tercer Piso, Colonia Cuauhtémoc, Delegación Cuauhtémoc, 06500 Ciudad de México, upon surrender of the relevant certificate or evidence of its deposit with Indeval. Indeval distributes the proceeds from each such payment to the accounts designated to such effect by its participants, for their subsequent distribution to the note holders.
Repayments of principal: The Company will repay the principal amount of the Notes in a single installment on the Maturity Date.
Prepayment in full: The Company may prepay all (but not only a portion) of the Notes at any time beginning on the third anniversary of the Issue Date.
Collateral: The Notes are secured by all of the Company's assets as a whole, rather than by a specific item of collateral.
S&P rating: "mxAAA", which is the highest issuer credit rating assigned by Standard & Poor's, S.A. de C.V. under its CaVal scale and is indicative of the issuer's very strong capacity to meet its financial commitments relative to other domestic issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Standard & Poor's, S.A. de C.V.
Moody's rating: "Aa1.mx", which is a strong rating relative to other Mexican issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Moody's de México, S.A. de C.V.
Joint Representative of the Note holders: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero.
Depositary: Indeval.
Taxation: Interest payments on the Notes are subject to Mexican income tax withholding at the rates specified in the following provisions: (i) in the case of individuals and entities who are Mexican residents for tax purposes, articles 18, 135 and other related provisions of the Mexican Income Tax Law, as currently in effect; and (ii) in the case of individuals and entities who are non-Mexican residents for tax purposes, articles 153, 166 and other related provisions of the Mexican Income Tax Law, as currently in effect. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in the Company's Notes, including the specific rules applicable to them in light of their individual circumstances.
Negative Covenants: Until such time as the Notes have been repaid in full, the Company may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an acceleration event under the Notes. The terms of the Notes do not contain any negative covenant with respect to changes in the Company's control, or to the sale of the Company's indispensable assets or the creation of liens thereon.

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PRESENTATION OF INFORMATION

Financial Statements

The Company's consolidated financial statements and other financial information of IEnova presented herein were prepared in U.S. Dollars.

The Company's functional currency is the U.S. Dollar, other than with respect to the natural gas distribution business, for which the functional currency is the Mexican peso, and the reporting currency is the U.S. Dollar. For the purposes of presenting the Company's consolidated financial statements, the assets and liabilities of its subsidiaries with Mexican peso functional currency are translated into U.S. Dollars using the exchange rate as of the end of each reporting period, as reported by the Mexican Central Bank, or Banco de México, in the Mexican Official Gazette (*Diario Oficial de la Federación*). Income and expense items are translated at the period average exchange rate. If period exchange rate fluctuations are significant, translation considers the exchange rate corresponding to the date of each transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. The Company prepares its audited financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

This report includes the Company's audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015. The Company's audited consolidated financial statements have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere herein.

Market Estimates

Certain industry, demographic, market and competitive data, including market forecasts, used throughout this report, were obtained from internal surveys, market research, publicly available information and industry publications.

The Company has made these statements, on the basis of information from third party sources that believes are reliable, including among others:

- the World Bank;
- the International Monetary Fund;
- the International Energy Agency;
- the Mexican Official Gazette;
- Banco de México;
- the Mexican Energy Ministry (*Secretaría de Energía*); and
- the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*).

Industry and government publications generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Although the Company has no reason to believe that any of this information is inaccurate in any material respect, such information has not been independently verified, and therefore, the Company cannot guarantee its accuracy or completeness.

Some data are also based on the Company's estimates, which are derived from the review of internal surveys and analyses, as well as from independent sources. Although the Company believes these sources are reliable, the Company has not independently verified the information and cannot guarantee their accuracy or completeness. In addition, these sources may use different definitions of the relevant markets than those the Company presents. Data regarding the Company's industry are intended to provide general guidance but are inherently imprecise. Though the

Company believes these estimates were reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain. Nothing in this report should be interpreted as a market forecast.

Rounding

Certain amounts and percentages included in this report have been subject to rounding adjustments and accordingly, certain totals presented in this report may not correspond to the arithmetic sum of the amounts or percentages that precede them.

Other Information

Certain Mexican peso amounts contained in this report have been translated into U.S. Dollars. Unless otherwise indicated, the exchange rate used to translate such amounts was Ps.19.7354 to USD$1.00, which was the selling exchange rate in effect on December 29, 2017, as reported by Banco de México in the Mexican Official Gazette.

The Company makes reference to various measurements throughout this report that utilize the U.S. or metric system of measurement. The applicable conversion rates, from the U.S. system of measurement to the metric system and vice versa, are as follows:

1 foot = 0.3048 meters
1 square foot = 0.092903 square meters
1 cubic foot = 0.028317 cubic meters

In addition, for convenience and consistency the Company has converted various capacity and volume measurements (as provided in contracts, permits, source materials or other documents in various other capacity and heating value units) into certain consistent units. Specifically, natural gas volume is always presented in millions of cubic feet, or MMcf; liquefied natural gas, or LNG, is always presented in cubic meters; and liquefied petroleum gas, or LPG, is always presented in barrels, or Bbl. For comparison across natural gas, LNG and LPG units, the Company also provides parenthetically the heating value in millions of Therms, or MMTh, for each of these products. All conversions are approximate. The applicable rates used for these conversions in this report are as follows:

1 MMcf natural gas = 252 Gigacalories
1 MMcf natural gas = 1,040 million British thermal units (MMbtu)
MMcf natural gas = 1,097 Gigajoules
1 MMcf natural gas = 1,040 Decatherms
1 m^3 LNG = 23.0 MMbtu
1 MMcf natural gas = 0.01040 MMTh
1 MMcf ethane = 0.017775 MMTh
1 m^3 LNG = 0.000229 MMTh
1 Bbl LPG = 0.000055 MMTh

Description of The Company's Contracts and Permits

This report contains summary descriptions of material provisions of various commercial agreements, permits and other contracts. Such descriptions do not purport to be complete or exhaustive. The Company also notes that as with any contract or legal instrument, the terms thereof may be subject to interpretation.

GLOSSARY OF TERMS AND DEFINITIONS

The following terms, as used in this report, have the following meanings:

Term	Definition
"Acciona"	Acciona Energía, S.A.
"Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector"	The Mexican National Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector (*Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*).
"Aguaprieta pipeline"	The 20-inch diameter pipeline with an approximate length of 13 km and a capacity of 200 MMcfd (2.1 MMThd).
"Antitrust Commission" or "COFECE"	Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*).
"audited financial statements"	The Company's audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015, including the notes thereto.
"Banco Nacional de México"	Banco Nacional de Mexico, S.A., Integrante del Grupo Financiero Banamex.
"Banco Santander (México)" or "Santander"	Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México.
"Bancomext"	Banco Nacional de Comercio Exterior, S.N.C.
"Bank of Tokyo"	The Bank of Tokyo Mitsubishi UFJ, LTD
"Banking and Securities Commission"	Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*).
"Banobras"	Banco Nacional de Obras y Servicios Públicos, S.N.C.
"basis point"	One-hundredth of one percent (e.g., 30 basis points = 0.30%).
"Bbl"	Barrels.
"Bbld"	Barrels per day.
"BBVA Bancomer"	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
"Blackstone"	Blackstone Energy Partners.
"BlackRock"	BlackRock, an asset management entity.
"Bloomberg"	Bloomberg L.P.
"CAISO"	California Independent System Operator
"CEBURES" or "Notes"	The Company's domestic senior notes (Certificados Bursátiles).
"CEL"	Clean energy certificates.
"CEMEX"	CEMEX, S.A.B. de C.V. (and affiliates). CEMEX, has subscribed and maintains Ventika's management services contracts.
"Center for the Control of Energy"	The Mexican National Center for the Control of Energy (Centro Nacional de Control de Energía, or CENACE), a decentralized agency of the Mexican government that is responsible for the operative control of the national electric system, the wholesale electric market and not unduly discriminatory open access to the national transmission network and to general electricity distribution networks.

"Center for the Control of Natural Gas" or "CENAGAS"	The Mexican National Center for the Control of Natural Gas (*Centro Nacional de Control del Gas Natural, or CENAGAS*), a decentralized agency of the Mexican government that is responsible for managing the Mexican Natural Gas Integrated Transportation and Storage System (*Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural*) and for ensuring the ongoing, safe provision of services through such system, thus contributing to the ongoing supply of natural gas throughout Mexico. Effective January 1, 2016, Mexican law required that Pemex TRI assign to the Mexican Center for the Control of Natural Gas its compression services agreement with the Naco compression station and its transportation service agreements with the San Fernando, Los Ramones I and Los Ramones Norte pipelines.
"CFE" or "Federal Electricity Commission"	The Mexican Federal Electricity Commission (Comisión Federal de Electricidad), a productive state-owned company.
"Chevron"	Chevron Combustibles de México, S. de R.L. de C.V.
"Company"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.
"Credit Suisse México"	Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México).
"DeAcero"	DeAcero, S.A.P.I. de C.V. (and affiliates)
"DEN"	Ductos y Energéticos del Norte, S. de R.L., the joint venture between the Company and Pemex TRI.
"Dollars" or "USD$"	U.S. Dollars, the official currency of the United States.
"Don Diego Solar"	The Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new $125MW_{AC}$ solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019 with an estimated investment of USD$130 million.
"Downstream"	Refining, marketing and distribution.
"EBITDA"	Earnings before interests, taxes, depreciation and amortization.
"ECOGAS"	ECOGAS México, S. de R.L. de C.V., the natural gas distribution system.
"Energía Sierra Juárez"	Energía Sierra Juárez, S. de R.L. de C.V., a 155 MW wind powered generation project, located in Baja California, in which the Company and InterGen each hold a 50% equity interest.
"Energy Ministry"	The Mexican Energy Ministry (*Secretaría de Energía*).
"Energy Regulatory Commission"	The Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*).
"Environmental Protection Enforcement Agency"	Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*).
"Ethane pipeline"	The approximately 224 km, three-segment pipeline with a design capacity for the transportation of 238 MMcfd (4.2 MMThd) of ethylene from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz to the Ethylene XXI project's ethylene and polyethylene polymerization facility in the State of Veracruz.
"Exchange rate"	The Mexican peso/U.S. Dollar exchange rate published by Banco de México in the Mexican Official Gazette
"FCA"	Fiat Chrysler Automobiles, N.V.
"FEMSA"	Fomento Económico Mexicano, S.A.B. de C.V
"FERC"	The U.S. Federal Energy Regulatory Commission.

"Gasoductos de Chihuahua" or "GdC"	In Gasoductos de Chihuahua, S. de R.L. de C.V., the Company was partners with Pemex TRI until September 26, 2016. Gasoductos de Chihuahua changed its name to IEnova Pipelines.
"Gasoductos del Sureste"	Gasoductos del Sureste, S. de R.L. de C.V., a subsidiary of the Company.
"Gazprom"	Gazprom Marketing & Trading México, S. de R.L. de C.V.
"GDP"	Mexico's gross domestic product.
"Gloria a Dios compression station"	The 14,300 horsepower natural gas compression station installed at the interconnection point between the Samalayuca pipeline and Ciudad Juárez–Chihuahua natural gas pipeline. It is property of the Mexican Center for the Control of Natural Gas.
"Guadalajara LPG terminal"	The 80,000 Bbl (4.4 MMTh) LPG storage facility, located in Jalisco.
"Guaymas–El Oro pipeline"	The second segment of the Sonora pipeline, comprised of approximately 330 km of 30-inch diameter pipeline with a transportation capacity of 510 MMcfd (5.3 MMThd). It goes through the states of Sonora and Sinaloa. It will include an 11,000 horsepower compression station.
"GW"	Gigawatt.
"GWh"	Gigawatt hours.
"IASB"	International Accounting Standards Board.
"IEnova"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.
"IEnova Marketing"	IEnova Marketing, S. de R.L. de C.V.
"IEnova Pipelines"	Formerly Gasoductos de Chihuahua, S. de R.L. de C.V., in which the Company was partners with Pemex TRI until September 26, 2016.
"IFRS"	International Financial Reporting Standards issued by the IASB.
"IMG"	Infraestructura Marina del Golfo, S. de R.L. de C.V., the joint venture between IEnova, through Ductos e Infraestructura Marina, S. de R.L. de C.V. with participation of 40%, and TransCanada with participation of 60%.
"Income tax"	The Mexican income tax (*impuesto sobre la renta*).
"Indeval"	S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.
"InterGen"	InterGen N.V. and/or its affiliates Energía Azteca X, S.A. de C.V. and/or Energía de Baja California, S. de R.L. de C.V.
"IPP"	Independent power producer.
"ISL"	Inversiones Sempra Limitada, a subsidiary of Sempra.
"ISLA"	Inversiones Sempra Latin America Ltda, a subsidiary of Sempra.
"JPM Ventures Energy"	JPM Ventures Energy México, S. de R.L. de C.V., an affiliate of J.P. Morgan.
"km"	Kilometers.
"Law of Hydrocarbons" or "LH"	Law of Hydrocarbons, published in the Mexican Official Gazette on August 11, 2014.
"Law of Energy Transition"	Law of Energy Transition, published in the Mexican Official Gazette on December 24, 2015.
"Law of Electric Industry"	Law of Electric Industry, published in the Mexican Official Gazette on August 11, 2014.
"Law for the Protection of Personal Data"	The Mexican Federal Law for the Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*), published in the Mexican Official Gazette on July 5, 2010.

"LIBOR"	The London Interbank Offered Rate.
"LNG"	Liquefied natural gas.
"LNG terminal"	The LNG terminal with an aggregate storage capacity of 320,000 m^3 (73.3 MMTh) in two tanks, each of 160,000 m^3 (36.6 MMTh), and a send-out capacity of 1,300 MMcfd (13.5 MMThd) or a nominal capacity of 1,000 MMcfd (10.4 MMThd), located in Ensenada, Baja California.
"Los Ramones I pipeline"	The system comprised of a 48-inch diameter pipeline with an approximate length of 116 km and a design capacity of 2,100 MMcfd (21.8 MMThd), and two compression stations. It extends from the border between the State of Tamaulipas and the U.S. to the interconnection point with the Los Ramones Norte pipeline in the State of Nuevo León.
"Los Ramones Norte pipeline"	The system comprised of a 42-inch diameter pipeline with an approximate length of 452 km and a design capacity of 1,420 MMcfd (14.8 MMThd), and two compression stations, of which the Company own 50%. It extends from the interconnection point with the Los Ramones I pipeline in Ramones, Nuevo León, to the interconnection point with the Los Ramones Sur pipeline in the State of San Luis Potosí.
"LPG"	Liquefied petroleum gas.
"m^3"	Cubic meters.
"Mexican Constitution"	The Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*).
"Mexican Corporations Law"	Mexican Corporations Law (*Ley General de Sociedades Mercantiles*) published in the Mexican Official Gazette on August 4, 1934.
"Mexican government"	The Mexican federal government.
"Mexican Stock Exchange"	The Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*)
"Mexico"	United Mexican States.
"Midstream"	Transportation, storage and wholesale marketing.
"Ministry of Communications and Transportation"	The Mexican Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*).
"Ministry of the Environment"	The Ministry for the Environment (*Secretaría de Medio Ambiente y Recursos Naturales*).
"Mizuho Bank"	Mizuho Bank, Ltd.
"MMcf"	Million cubic feet.
"MMcfd"	Million cubic feet per day.
"MMTh"	Million therms.
"MMThd"	Million therms per day.
"MW"	Megawatt.
"MW_{AC}"	Megawatt, alternating current.
"n.m."	Not material
"Naco compression station"	The 14,340 horsepower natural gas compression station installed at the Mexican Center for the Control of Natural Gas' Naco–Hermosillo pipeline in Naco, Sonora.
"NADB"	The North American Development Bank.
"NAFINSA"	Nacional Financiera, S.N.C., Institución de Banca de Desarrollo.
"NAFTA"	The North American Free Trade Agreement.
"National Pipeline Network"	All existing pipelines in the national territory, whether public or private.
"National Securities Registry"	Mexican National Securities Registry (*Registro Nacional de Valores*).
"NOM"	Mexican Official Standards (*Normas Oficiales Mexicanas*).

"NORD/LB"	Norddeutsche Landesbank Girozentrale.
"North Baja pipeline"	The approximately 138 km third-party-owned pipeline located in the United States.
"Ojinaga–El Encino pipeline"	The approximately 220 km, 42-inch diameter pipeline with a natural gas transportation capacity of 1,356 MMcfd (14.1 MMThd), located in the State of Chihuahua.
"Other comprehensive income"	The Company's other comprehensive income.
"Pemex"	Petróleos Mexicanos, a Mexican productive state-owned company.
"Pemex Gas" or "PGPB"	Pemex – Gas y Petroquímica Básica, a productive state-owned subsidiary for technical, industrial and commercial purposes with own legal personality and property, subsidiary of Pemex, or Pemex TRI as beneficiary of PGPB resulting from PGPB reorganization.
"Pemex TRI"	Pemex Transformación Industrial, a a productive state-owned subsidiary.
"pesos" or "Ps."	The Mexican peso, the official currency of Mexico.
"Pima Solar"	The Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} facility. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment is approximately USD$115 million.
"POC"	Peruvian Opportunity Company S.A.C., a subsidiary of Sempra.
"PUHCA"	The U.S. Public Utility Holding Company Act of 2005.
"Refined Products Storage"	In July 2017, the Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the New Port of Veracruz, which will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 1,400,000 Bbl. In August 2017, the Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and two in-land terminals in Puebla and Mexico City with capacities of approximately 500,000 and 800,000 Bbl, respectively. Estimated investment is USD$155 million for Veracruz and a total of USD$120 million for the two in-land terminals. The Company expects that the marine terminal will commence commercial operations in the second half of 2018 and the two in-land terminals will commence commercial operations in the first half of 2019.
"report"	This annual report, for the year ended December 31, 2017.
"Rosarito pipeline system"	The natural gas transportation system is comprised of three segments of approximately 302 km in aggregate length, which include the 30-inch diameter Rosarito Mainline with a capacity of approximately 534 MMcfd (5.6 MMThd), the 42-inch diameter LNG Spur with a capacity of approximately 2,600 MMcfd (27.0 MMThd), and the 12-inch diameter Yuma Lateral with a capacity of 190 MMcfd (2.0 MMThd). Located in Baja California, it also includes a 30,000 horsepower compression station.
"Rules for Law of Hydrocarbons" or "LH"	Rules for Law of Hydrocarbons, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Law of Electric Industry"	Rules for Law of Electric Industry, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Title III of LH"	Rules for activities related to Title III of Law of Hydrocarbons, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Natural Gas" or "Natural Gas Regulation"	Rules for Natural Gas, published in the Mexican Official Gazette on November 8, 1995 and revoked by the Rules for Title II of LH, except as expressly stated in the transitory provisions of the latter.

“Rules for Securities Issuers”	The General Rules for Securities Issuers and for Other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores*) published in the Mexican Official Gazette on March 19, 2003, as amended as of the date hereof.
“Rumorosa Solar”	Solar energy project, currently under development and construction, that the Company was awarded in September 2016 in the second CENACE auction (May 2016) for energy, clean certificates and capacity. The project will have a capacity of approximately 41 MW and will be located near Energía Sierra Juárez wind power generation facility in Baja California.
“Samalayuca pipeline”	The natural gas transportation system is comprised of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd), which extends from Ejido San Isidro, Chihuahua, to the Mexican Federal Electricity Commission's Samalayuca power plant and interconnects with a separate 16-inch diameter pipeline that is wholly owned by Pemex TRI, which runs from Ciudad Juárez to Chihuahua.
“San Fernando pipeline”	The natural gas transporation system is comprised of approximately 114 km of 36-inch diameter pipeline with a capacity of 1,460 MMcfd (15.2 MMThd) and two compression stations with an aggregate of 95,670 horsepower. The pipeline runs from El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas.
“San Isidro–Samalayuca pipeline”	The system comprised of an approximately 23 km pipeline with a transportation capacity of 1,135 MMcfd (11.8 MMThd) and a compression station.
“Sásabe–Puerto Libertad–Guaymas pipeline”	The first segment of the Sonora pipeline, comprised of approximately 505 km of 36-inch diameter pipeline with a natural gas transportation capacity of 770 MMcfd (8.0 MMThd). The pipeline includes two sections in Sonora: the 220 km Sásabe–Puerto Libertad and the 285 km Puerto Libertad–Guaymas sections.
“SDG&E”	San Diego Gas & Electric Company, an affiliate of Sempra Energy.
“Securities Market Law”	Mexican Securities Market Law (*Ley del Mercado de Valores*), published in the Mexican Official Gazette on December 30, 2005.
“SEH”	Sempra Energy Holdings XI B.V., a subsidiary of Sempra.
“Senior Notes” or “International Senior Notes”	On December 2017, the Company successfully completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048. The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.
“Sempra Energy”	Sempra Energy, a California corporation and the Company’s indirect parent.
“Sempra Generation”	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
“Sempra International”	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
“Sempra Natural Gas”	Sempra LNG International LLC, an operating division of Sempra Energy.
“Sempra Services Company”	Sempra Services Company, S. de R.L. de C.V.
“Shell”	Shell México Gas Natural, S. de R.L. de C.V.
“SISTRANGAS” or “SNG”	Integrated natural gas transportation and storage national system. National pipeline system, totality of pipelines, whether owned by private or public, existing in national territory.
“SMBC”	Sumitomo Mitsui Banking Corporation.

"SoCalGas"	Southern California Gas Company, an affiliate of Sempra Energy.
"Sonora pipeline"	The natural gas transportation system with an aggregate length of approximately 835 km, with a capacity of 770 MMcfd (8.0 MMThd) for the first segment and 510 MMcfd (5.3 MMThd) for the second segment. The system is located in the states of Sonora and Sinaloa. The first segment is the Sasabe – Puerto Libertad – Guaymas pipeline and the second segment is the Guaymas – El Oro pipeline; both segments are interconnected.
"South Texas – Tuxpan pipeline"	The natural gas transportation system, in development through a joint venture with TransCanada, with a lenght of approximately 800 km, a capacity of 2,600 MMcfd (27 MMThd) and a compression station. In the joint venture, participation is IEnova 40% and TransCanada 60%.
"Standby letter of credit facility agreement"	The Company announced the execution of a standby letter of credit facility and reimbursement agreement, up to an amount equivalent to USD$1.0 billion, in order to make more efficient and standardize the process for the issuance of standby letters of credit requested by governmental entities or third parties. The bank syndicate is formed by Banco Nacional de Mexico, SMBC, BBVA Bancomer, Scotiabank Inverlat, Mizuho, BNP Paribas and Santander. This agreement has a term of five years. The standby letter of credit facility agreement and the standby letters of credit issued under the same do not constitute the Company's debt.
"Storage terms and conditions"	The LNG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento de Gas Natural Licuado*), or the LPG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento de Gas Licuado de Petróleo*), as the case may be, which constitute an integral part of the Company's LNG and LPG storage permits, respectively.
"TAG Norte Holding" and/or "TAG Pipelines Norte"	TAG Norte Holding, S. de R.L. de C.V., together with its subsidiary TAG Pipelines Norte, S. de R.L. de C.V., a joint venture between DEN, an affiliate of Pemex TRI, and TETL, which owns the Los Ramones Norte pipeline.
"TAG Pipelines"	TAG Pipelines Norte, S. de R.L. de C.V., is a subsidiary of Pemex.
"Tax and Administrative Court"	The Mexican Federal Tax and Administrative Court (*Tribunal Federal de Justicia Fiscal y Administrativa*).
"TDF LPG pipeline"	The approximately 190 km, 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Bbld (1.9 MMThd) of LPG, extending from the production area of Pemex TRI's Burgos LPG facility in the State of Tamaulipas to the delivery system located in the outskirts of Monterrey, Nuevo León.
"Tecnológico de Monterrey"	Instituto Tecnológico y de Estudios Superiores de Monterrey.
"Tepezalá Solar"	Solar energy project, currently under development and construction that the Company was awarded in September 2016 in the second CENACE auction (May 2016) for energy, clean certificates and capacity. The project will have a capacity of approximately 100 MW_{AC}, will be located in Aguascalientes and will be developed in a joint venture with Trina Solar (NYSE: TSL), which will have a minority participation of 10%. Trina Solar is a company dedicated to the production of solar photovoltaic modules and optimization of solar energy systems.
"Termoeléctrica de Mexicali" or "TDM"	Termoeléctrica de Mexicali, S. de R.L. de C.V., or the combined cycle power plant operated by it, as the context may require, with a 625 MW capacity and located in Baja California.
"TETL"	TETL JV Mexico Norte, S. de R.L. de C.V., a subsidiary of BlackRock.
"TGN pipeline"	The natural gas transportation system comprised of approximately 45 km of 30-inch diameter pipeline with a capacity of 940 MMcfd (9.8 MMThd) and an 8,000 horsepower compression station, located in Baja California.
"The Bank of Nova Scotia"	The Bank of Nova Scotia.

"TIIE"	The Mexican Interbank Balanced Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*).
"Transportation terms and conditions"	The natural gas transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas Natural*), or the LPG transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas Licuado de Petróleo*), as the case may be, which constitute an integral part of the natural gas and LPG transportation permits, respectively.
"UDI" or "UDIS"	The unit of account whose value in pesos is published periodically by Banco de Mexico.
"United States" or "U.S."	United States of America.
"Upstream"	Exploration and production activities.
"Valero"	Valero Energy Corporation.
"VAT"	The Mexican value added tax (*Impuesto al Valor Agregado*).
"Ventika"	Ventika includes two adjacent wind powered generation facilities, of 126 MW each, Ventika I and Ventika II, with a total capacity of 252 MW, with a total of 84 turbines of 3 MW each. Located in the state of Nuevo Leon, Ventika I and Ventika II operate as a single wind powered generation facility.
"Ventika I"	Ventika, S.A.P.I. de C.V.
"Ventika II"	Ventika II, S.A.P.I. de C.V.

EXECUTIVE SUMMARY

This summary highlights the Company's activities and financial and operational information and is not intended to be complete or a substitute for the remainder of this report. Before investing in the Company's securities, you should read this entire report carefully for a more complete understanding of the business, including the financial statements and the related notes and the sections entitled "Presentation of Financial and Other Information," "Summary Financial Information," "Risk Factors," "Selected Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

The Company

The Company is the first private-sector publicly traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its activities in Mexico include several business lines that encompass a significant portion of the Mexican energy infrastructure value chain that is open to private investment.

The Company's assets are divided between two business segments: (1) gas segment, which includes natural gas and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, LNG storage, distribution of natural gas and refined products transportation and storage; and (2) power segment, which includes power generation by Termoeléctrica de Mexicali power plant, a natural-gas-fired, combined-cycle power generation facility that is currently held for sale, wind power generation facilities Energía Sierra Juárez and Ventika, and four solar power generation facilities that are under construction. The Company's assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are presented in the Consolidated Statements of Profit and Loss as discontinued operations; likewise, the assets and liabilities of Termoeléctrica de Mexicali were reclassified to the current in the line of assets held for sale and liabilities related to assets held for sale, in the Consolidated Statements of Financial Position.

As a result of changes to Mexican gas regulation in 1995, the Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990's. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 23 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through new projects development, organic growth, acquisitions and a diversifying its customer base), investing approximately USD$7.6 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

The Company's achievements as pioneers in private investment in Mexican energy infrastructure include the following:

- The Company was the first private company to be awarded a natural gas distribution contract through a public auction following the 1995 reform of the regulatory framework for the Mexican energy sector; the Company owns and operates a natural gas distribution utility, ECOGAS, in three distribution zones: Mexicali since 1996 (serving the city of Mexicali), Chihuahua since 1997 (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna–Durango since 1999 (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango);

- The Company built the first natural gas pipeline in the state of Baja California, and the Company has been the sole developer of open-access natural gas pipelines in Baja California (a region which previously did not have access to U.S. or Mexican natural gas pipeline systems);

- The Company's natural gas pipelines in Baja California allowed the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*) to convert its power generation facilities from fuel oil to natural gas, and the Company is one of the major suppliers of natural gas to the Mexican Federal Electricity Commission in Baja California;

- The Company was partners with state-controlled Pemex TRI in IEnova Pipelines, formerly Gasoductos de Chihuahua, the first natural-gas- infrastructure joint venture in Mexico between PEMEX and private companies, and on September 27, 2016, the company increased its indirect equity interest in IEnova Pipelines, formerly Gasoductos de Chihuahua, from 50% to 100% when the Company acquired the remaining 50% interest from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million;

- The Company built the first LNG terminal on the west coast of North America;

- The Company began developing, through a joint venture with TransCanada, the marine pipeline South of Texas-Tuxpan, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in June 2016. It is expected to commence commercial operations in the fourth quarter of 2018, and the Company is expecting to invest approximately USD$840 million;

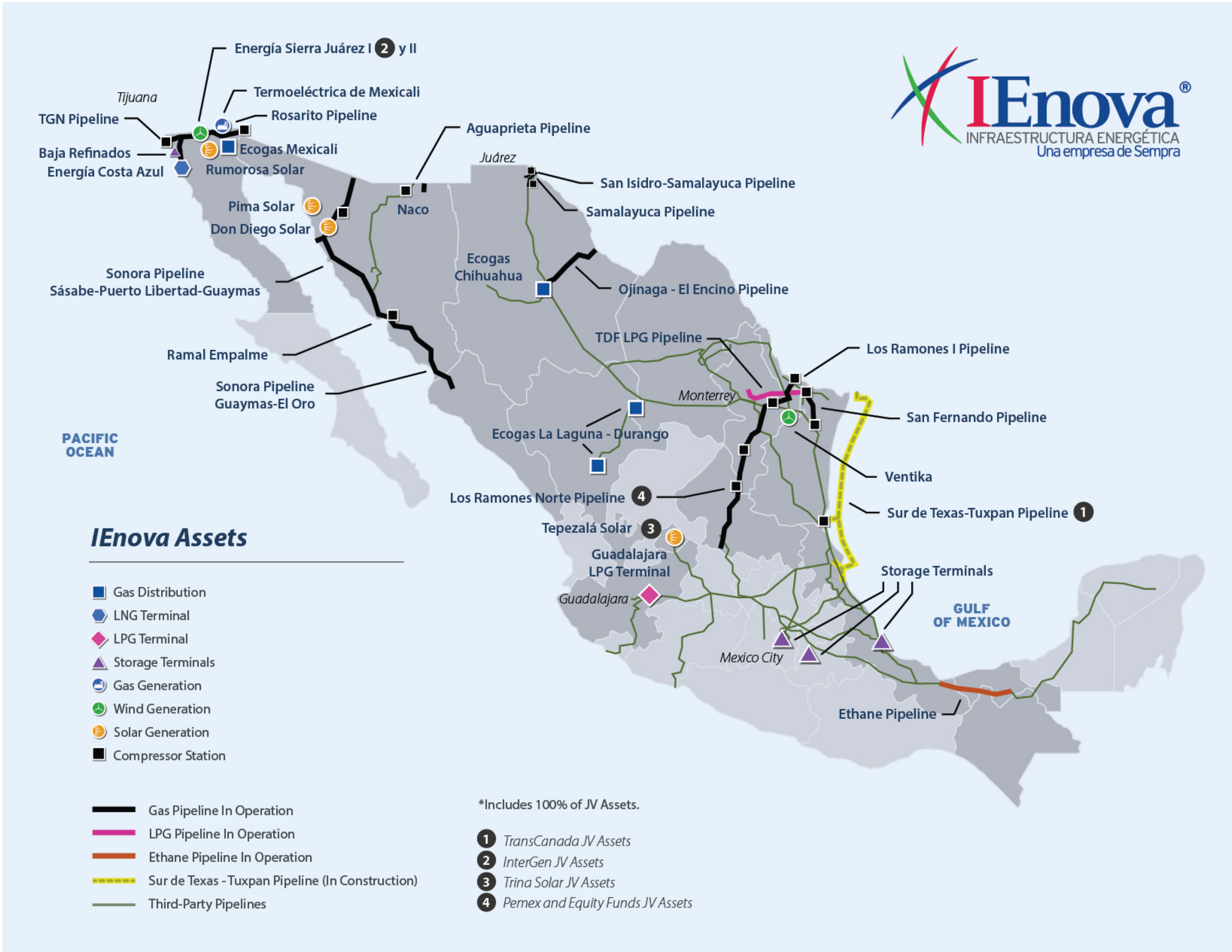
- The Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} Pima Solar project. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment in this project is expected to be approximately USD$115 million;

- The Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the new port of Veracruz, which will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 1,400,000 Bbl, and it is expected to commence commercial operations in the second half of 2018;

- The Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Mexico City. The estimated investment is USD$155 million for the new marine terminal and USD$120 million for the two in-land terminals. The Company expects that the two in-land terminals will commence commercial operations in the first half of 2019; and

- The Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new 125MW_{AC} solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019, it has an estimated investment of USD$130 million.

The following map shows the location of the Company's principal assets, which are divided between the gas segment and the power segment:



Gas Segment

Pipelines and Storage Business

- The Company's pipeline business develops and operates systems for receiving, transporting, compressing, storing and delivering natural gas, ethane and LPG throughout the states of Baja California, Chiapas, Chihuahua, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems (including assets under construction or operated through joint ventures) feature:
    - More than 2,900 km of natural gas pipelines (of which approximately 800 km were under construction as of December 2017) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd);
    - Eleven natural gas compression stations in operation, one in commissioning and three currently under construction, with an aggregate of over 588,810 horsepower;
    - 190 km of LPG pipelines with a design capacity of 34,000 Bbld (1.9 MMThd);

- 224 km of ethane pipelines with a transportation capacity of up to 52 MMcfd (0.6 MMThd) in the first segment (as ethane gas); approximately 152 MMcfd (1.8 MMThd) in the second segment (as ethane gas), and approximately 106,000 BBld (1.9 MMThd) in the third segment (as ethane liquid); and

- an LPG storage facility with a total capacity of 80,000 Bbl (4.4 MMTh), near Guadalajara, in the state of Jalisco.

The Company's current pipeline assets include the Rosarito pipelines system, the TGN pipeline, the Aguaprieta pipeline, the Naco compression station, the Sonora pipeline, the Ojinaga–El Encino pipeline, the San Isidro – Samalayuca pipeline, the Empalme Lateral and the South of Texas – Tuxpan pipeline, the joint venture with TransCanada (expected to begin operations in the last quarter of 2018). The company's pipeline assets also include a 100% interest of the assets held by its former joint venture with Pemex TRI, (IEnova pipelines, formerly Gasoductos de Chihuahua) in which the Company held a 50% interest before September 27, 2016. IEnova Pipelines, formerly Gasoductos de Chihuahua, owns the San Fernando pipeline, Samalayuca pipeline, Ethane pipeline, TDF LPG pipeline, Los Ramones I pipeline, Gloria a Dios compression station and Guadalajara LPG terminal and 50% of Los Ramones Norte pipeline.

Liquefied Natural Gas Business

The Company's LNG regasification terminal, located near Ensenada, Baja California, began operations in 2008 and was the first LNG receiving facility on the west coast on North America. The Company's LNG terminal provides receiving and storage facilities for the Company's LNG customers, regasifies their LNG and delivers the resulting natural gas to Gasoducto Rosarito pipeline system with delivery capability in Baja California, Mexico and the United States. LNG business also purchases LNG on its own behalf for storage and regasification in the Company's LNG terminal and sells natural gas to third-party customers. The terminal has a storage capacity of 320,000 cubic meters, or m^3 (73.3 MMTh), in two tanks, each with a capacity of 160,000 m^3 (36.6 MMTh). The terminal is designed to operate at a maximum send-out capacity of 1,300 MMcfd (13.5 MMThd), or a nominal capacity of 1,000 MMcfd (10.4 MMThd).

Refined Products Business

In July 2017, the Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz, for the construction and operation of a new marine terminal in the New Port of Veracruz. It will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel, and it will have a capacity of approximately 1,400,000 Bbl. In August 2017, the Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Mexico City with capacities of approximately 500,000 and 800,000 Bbl, respectively. The estimated investment is USD$155 million for Veracruz and a total of USD$120 million for the two in-land terminals. The Company expects that the marine terminal will commence commercial operations in the second half of 2018 and the two in-land terminals will commence commercial operations in the first half of 2019.

Natural Gas Distribution Business

The Company owns and operates the ECOGAS natural gas distribution utility, which covers three distribution areas: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,852 km in length, this system currently serves over 120,000 industrial, commercial and residential customers.

For the years ended December 31, 2017, 2016 and 2015, the gas segment had revenues of approximately USD $1,065 million, USD$712 million and USD$611 million, respectively, which accounted for 91%, 99% and 100% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$670 million, USD$485 million and USD$367 million, respectively, which accounted for 88%, 96% and 94% of the total adjusted EBITDA for the period ended December 31, 2017, 2016 and 2015. This revenue figure does not include net equity in earnings from the Company's joint ventures, which are accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint ventures in the gas segment adjusted EBITDA.

Power Segment

Natural Gas Fired Power Generation Business

The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with the Rosarito pipeline system, which allows it to receive regasified LNG from the LNG terminal as well as gas supplied from the United States through the North Baja pipeline system. This facility is a modern, efficient combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California, and in February 2013 and 2015, this facility received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency (Procuraduría Federal de Protección al Ambiente). The plant is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator (CAISO) at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California.

In February 2016 the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, beginning in 2016 the after-tax results of Termoeléctrica de Mexicali are included in the consolidated statements of profit under discontinued operations, net of income tax.

Renewable Powered Generation Business

Energía Sierra Juárez is located along mountain ridges in the Sierra de Juárez Mountains in Baja California, Mexico, which is one of the strongest wind resources on the west coast of North America. The initial phase of this project consists of 47 wind turbines (approximately 155 MW) and is located about 70 miles from San Diego, just south of the Mexico—U.S. border, it commenced operations in June 2015. The Company developed the initial phase with a joint venture partner, InterGen. The project interconnects to the East County Substation of the transmission line known as the Southwest Powerlink, owned by an affiliate of San Diego Gas & Electric Company, in eastern San Diego County via a cross-border transmission line. The full amount of electricity from the initial phase is purchased by the U.S. affiliate San Diego Gas & Electric Company under a 20-year power purchase agreement.

In September 2016, the Company participated in the second auction for energy, power and clean energy certificates issued by CENACE in May 2016, with a portfolio of solar energy projects. The Company was awarded two projects, the Rumorosa Solar project and the Tepezalá Solar project, as a result of the bids in this auction. The Company will develop, build and operate the approximately 41 MW_{AC} Rumorosa Solar project near the Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW_{AC} Tepezalá Solar project will be located in Aguascalientes. The Company estimates that the total investment for these projects will be approximately USD$150 million.

In December 2016, the Company acquired 100% of the equity interests of Ventika, which is located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. It is powered by 84 turbines and provides an aggregate of up to 252 MW of generating capacity. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$920 million, including USD$435 million in cash plus existing bank indebtedness of USD$485 million. Ventika started operations in April 2016. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreements.

In January 2017, the Company announced the execution of a 20-year power purchase agreement and two 15-year power purchase agreements with the CFE, for the sale of the energy generated by the 100 MW_{AC} Tepezalá Solar project to be located in the State of Aguascalientes. The agreements include 20 years for the clean energy certificates and 15 years for the capacity. The Tepezalá Solar project will be developed and constructed by the Company in collaboration with Trina Solar (NYSE: TSL), a world leader in solar energy, who will have a 10% interest in the project. The company expects that the Tepezalá Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$100 million.

In January 2017, the Company announced the execution agreements with the CFE, for the sale of the energy products generated by the 41 MW_{AC} Rumorosa Solar project to be located in the State of Baja California near the Energía Sierra Juárez wind farm. The agreements include 20 years for the clean energy certificates and 15 years for the energy. The company expects that the Rumorosa Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$50 million.

In March 2017, the Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} Pima Solar project. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment in this project is expected to be approximately USD$115 million.

For the years ended December 31, 2017, 2016 and 2015, the power segment had revenues of approximately USD $100 million, USD$3 million and USD$0 million, respectively, which accounted for 9%, 0% and 0% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$97 million, USD$19 million and USD$25 million, respectively, which accounted for 13%, 4% and 6% of the total adjusted EBITDA for the period ended December 31, 2017, 2016 and 2015. This revenue figure does not include net equity in earnings from the joint venture, which is accounted for for using the equity method; however, the Company includes the share of the EBITDA from its joint venture in the power segment adjusted EBITDA.

For the years ended December 31, 2016 and 2015, the power segment did not have relevant revenues, due to the reclassification of TDM as discontinued operations and the recognition of 17 days of operations related to Ventika wind farm as of December 31, 2016.

Strengths

The Company believes the following competitive strengths distinguish it from its competitors and are critical to the continued successful execution of its strategy.

- ***Cash flow stability and visibility through long-term contracts***. The Company has contracted a substantial portion of the capacity of its assets across its business segments through long-term agreements under which its customers are required to pay regardless of whether they use their contracted capacity. This provides the Company with steady and predictable long-term cash flows. Substantially all of these contracts are U.S. dollar-denominated or U.S. dollar-indexed, with stable, creditworthy, private and public counterparties that include the Mexican Federal Electricity Commission, CENAGAS and Pemex. In addition to enhancing the stability of the Company's cash flows, these firm capacity agreements also minimize its direct exposure to commodity price risk. The average life of these current contracts, weighted in proportion to revenues, is approximately 19 years. The current fee structure of the Company's long-term contracts minimizes its market risk because the rates, some of which are regulated by the Mexican Energy Regulatory Commission, are adjusted regularly to account for inflation or fluctuations in exchange rates.

- ***Proven development capability and extensive experience operating diverse energy assets***. With over 20 years of experience in Mexico, the Company has developed the necessary skills and relationships to successfully build, own and operate critical energy infrastructure in Mexico. Over this time, the Company has established a proven track record of building greenfield and brownfield projects and the flexibility to acquire energy assets in existing and new lines of business, such as its recent entries in the growing refined products and solar generation sectors. This is highlighted by the Company's acquisition of Pemex TRI's remaining 50% interest in IEnova Pipelines for USD $1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million; the acquisition of the 252 MW Ventika wind power generation facilities for a purchase price of USD$920 million; and the acquisition from Pemex TRI of the remaining 50% interest in Ductos y Energéticos del Norte, which increased the Company's indirect ownership in the Los Ramones Norte pipeline from 25% to 50%. See "-Recent Developments-Ductos y Energéticos del Norte Acquisition." The Company made its first investment in Mexico in 1996, when it won the first private natural gas distribution permit awarded in Mexico, and subsequently developed the Ecogas business into a model natural gas distribution company. The Company's largest project to date is the investment of USD$1.2 billion in the LNG terminal. In addition, the Company completed the Sonora pipeline, which represents a total investment of approximately USD$1.0 billion, and through the former joint venture with Pemex TRI, the Company completed the Los Ramones I pipeline, the Los Ramones Norte pipeline, the ethane pipeline and the Guadalajara LPG terminal. The Company believes that its experience in the energy sector positions it to take advantage of possible investment opportunities with developers looking for sales or spin-offs, in projects nearing completion, in companies seeking strategic partners, and in companies under financial distress and seeking liquidity through the sale of assets.

- ***Financing capacity to pursue new opportunities in the energy sector.*** The Company has secured a committed revolving credit facility from a syndicate of eight lenders for which Sumitomo Mitsui Banking Corporation serves as administrative agent. The Company refers to this as the Revolving Credit Facility. It permits borrowings up to USD$1,170 million through August 21, 2020. As of December 31, 2017 the available funds under the Revolving Credit Facility were approximately USD$1,033 million. In addition, the Company has demonstrated its ability to successfully access the capital markets, having raised approximately USD$408 million in public debt markets in February 2013, and USD$599 million in public equity markets in March 2013, USD$1,603 million in the equity follow-on in October 2016 and USD$840 million of the international Senior Notes private offerings in December 2017. Intercompany loans from subsidiaries of Sempra, which are affiliates of the Company, have been and are expected to continue being an additional source of financing. As of December 31, 2017, the Company's total shareholders' equity was USD$4.5 billion.

- ***Demonstrated ability to execute wide-ranging growth strategy.*** The Company has managed to consistently grow its business by implementing a diversified growth strategy through new businesses, expanding its customer base and positioning itself as a key player in the fast-growing Mexican energy sector. The Company continues to successfully navigate public-sector tender processes, as most recently demonstrated by contracts awarded to its joint venture with TransCanada in June 2016 by the Mexican Federal Electricity Commission for the development and operation of the South of Texas-Tuxpan natural gas marine pipeline project, contracts awarded in January 2017 by the Mexican Federal Electricity Commission for the development of the Tepezalá Solar and Rumorosa Solar projects, and the concession granted in July 2017 by the Port of Veracruz for development of the new Veracruz refined products marine terminal. In addition, The Company executed a bilateral power purchase agreement for the Pima Solar project with DeAcero and the refined products storage agreements with Valero with respect to the three refined products storage terminals. Finally, the Company continues to expand its businesses through acquisitions, as demonstrated most recently by the acquisition of the remaining 50% of Ductos y Energéticos del Norte, which was completed in November 2017. In February 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new $125MW_{AC}$ solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, is expected to begin operations in the second half of 2019 and have an estimated investment of USD$130 million.

- ***Diversification of energy assets covering wide market opportunity set***. The Company's assets are diversified across a significant part of the energy infrastructure value chain that is open to private investment in Mexico, including pipelines, LNG, natural gas distribution, refined products and power generation. Given the Company's scale, geographic position and diverse asset base, the Company believes it is well positioned to continue to expand and build out its platform of energy infrastructure assets. Due to the Company's track record as pioneers in private energy infrastructure investment in Mexico and its relationships with key players in the industry, it is well-positioned to expand into new energy sectors as opportunities for private investment arise. In addition, as many of its energy infrastructure assets are located across northern Mexico, the Company is strategically positioned to be a key player in the growing demand for the import and transportation of hydrocarbons across the Mexico-U.S. border.

- ***Strong history of compliance and positive relationships with Mexican regulatory bodies and government-controlled businesses***. Over the past 20 years, the Company has worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies, such as the Mexican Ministry of Energy and the Mexican National Agency for Industrial Safety and the Protection of the Environment in the Hydrocarbons Sector (*Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), and has developed a deep understanding of the regulatory process for the Mexican energy sector. The Company believes its cooperation and close coordination with the relevant regulatory bodies in Mexico are key strengths of its business, and it intends to continue to nurture and build upon these positive relationships. Moreover, these relationships have been built on the expertise the Company has developed while operating in Mexico. The Company also has long-term contractual relationships with government-controlled energy companies and entities, such as The National Center of Control of Natural Gas (*Centro Nacional de Control del Gas Natural*), or CENAGAS, Pemex and the Mexican Federal Electricity Commission, as well as permits and authorizations to develop and operate its energy assets in Mexico.

- ***Experienced management team***. The Company's management team has extensive experience in the energy infrastructure sector. The members of the Company's senior management team have an average of over 20 years of experience operating and developing assets in the Mexican energy sector. The Company believes the Company has the knowledge and skills necessary to successfully and safely manage all of our assets and operations and the development expertise necessary to expand our existing footprint and enter into new energy sectors as opportunities arise. The Company further believes its management team is one of its principal competitive strengths relative to its industry peers.

- ***World-class parent company***. The Company also benefits from the strong support of its indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale and owns approximately 66.4% of the Company's common stock. Based in San Diego, California, Sempra Energy is an NYSE-listed (NYSE: SRE) Fortune 500 company that provides energy services and had revenues of approximately US$11 billion in 2017. Sempra Energy companies employ more than 16,000 people and provide energy-related products and services to more than 32 million consumers worldwide. Through its relationship with Sempra Energy, the Company expects to continue to have access to a significant pool of strong commercial relationships throughout the energy industry and broad operational, commercial, technical, risk management and administrative infrastructure and support. The Company believes this access should, among other things, continue to maximize the operational and financial performance of its assets and enhance the efficiency of its current operations as well as its growth and expansion projects.

Summary Financial Information

(in thousands of U.S. Dollars)	Year ended December 31,		
	2017	**2016**	**2015**
Revenues	1,166,526	717,894	613,041
Depreciation and amortization	(119,020)	(64,384)	(52,470)
Profit for the period	354,174	754,990	140,189

(in thousands of U.S. Dollars)	Year ended December 31,		
	2017	**2016**	**2015**
Finance lease receivable, short-term	8,126	7,155	—
Finance lease receivable, long-term	942,184	950,311	14,510
Property, plant and equipment, net	3,729,456	3,614,085	2,595,840
Intangible	190,199	154,144	—
Goodwill	1,638,091	1,638,091	25,654
Total assets	8,163,859	7,126,948	3,507,082
Current liabilities	1,053,917	971,674	543,341
Total non-current liabilities	2,593,355	1,804,963	783,877
Total liabilities	3,647,272	2,776,637	1,327,218
Total stockholders' equity	4,516,587	4,350,311	2,179,864

Ratios	Year ended December 31,		
	2017	**2016**	**2015**
Current assets / current liabilities	0.5 times	0.5 times	0.4 times
Total liabilities / total assets	45%	39%	38%
Total liabilities / stockholders' equity	81%	64%	61%
Days of sales in accounts receivable	30 days	33 days*	32 days

* Proforma

Closing Prices and Average Trading Volumes for the Company's Shares

IEnova * Date	Closing Price	Average Volume
2013	52.17	1,886,829
2014	73.80	1,034,837
2015	72.34	1,139,929
2016	90.33	2,659,053
2017	96.45	1,946,066
31-Mar-2018	88.92	1,624,465

*Source: IEnova, based on Bloomberg data. Price per share in pesos

RISK FACTORS

An investment in the Company's securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. The Company's business, financial condition, results of operations, cash flows and/or prospects could be materially adversely affected by any of these risks. The market price of the Company's securities could decline due to any of these risks or other factors, and you may lose all or part of your investment. The risks described below are those that the Company currently believes may materially adversely affect it. Additional risks and factors not currently known, or those currently deemed to be immaterial, may also materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of the Company's securities. In this section, when stated that a risk or uncertainty may, could or will have a "material adverse effect" on the Company or could or will "materially adversely affect" it, it means that the risk or uncertainty could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of the Company's securities.

Risks Relating to The Company's Business and Industry

The Company operates in a highly regulated environment, and profitability depends on its ability to comply with a number of laws and regulations on a timely and efficient basis.

The Company operates under the laws and regulations of various federal, state and local governmental entities in Mexico and are required to obtain and maintain various permits, licenses and governmental approvals for the Company's activities. In some cases, the prices that the Company charges for its products and services are limited by regulated rates set by governmental authorities. These regulations and permits may limit the Company's operating flexibility, which could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of the Company's securities. For example, in order to obtain the favorable opinion of the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) in connection with a permit required for the operation of the Rosarito pipelines system, the Company was required to agree to divest of the Mexicali components of ECOGAS natural gas distribution system. The Company has been subject to this obligation since 2000 and has made good faith efforts to comply with the obligation to divest of the Mexicali gas distribution system, but have not yet located a purchaser for these assets. The Company has notified the Mexican Antitrust Commission of its inability to find a purchaser and the Mexican Antitrust Commission has not yet imposed a deadline for this disposition at this time.

With respect to the regulated rates that the Company charges to its customers, the Mexican Energy Regulatory Commission resets these rates periodically in accordance with applicable regulations, and the rates set by the Mexican Energy Regulatory Commission may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. In addition, in order to undertake new energy infrastructure projects in Mexico the Company may require additional permits from the Mexican Ministry of the Environment (*Secretaría de Medio Ambiente y Recursos Naturales*), the newly created Mexican National Agency for Industrial Protection and the Protection of the Environment (*Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), the Mexican Energy Regulatory Commission and the Mexican Energy Ministry, as well as the favorable opinion of the Mexican Antitrust Commission, and various factors, including a change in the Mexican Energy Regulatory Commission's energy policy, could result in the Company's inability to obtain such permits.

The Company cannot predict the future course of changes in laws and regulations that cover its activities or the effect that this changing regulatory environment will have on its business. In addition, due to the complex, overlapping federal, state and local regulatory regimes in which it operates, the Company may from time to time discover that it is lacking, or non-compliant with, one or more of its permits. If there is a delay in obtaining any required regulatory approval or permit to conduct the Company's operations, or if it fails to obtain or maintain any required approval or permit, the Company may not be able to operate its energy infrastructure projects, or the Company may be forced to incur additional costs, which in turn could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Business - Legal, Administrative and Arbitration Proceedings."

The Company is subject to numerous environmental, health and safety regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures.

The Company's business is subject to comprehensive federal, state and local environmental, health and safety legislation, as well as supervision by Mexican governmental agencies that are responsible for the implementation of such laws, regulations, official standards and related policies. These laws, regulations and official standards mandate, among other requirements, that the Company obtains and maintains environmental, health and safety licenses for construction and operation of all facilities, including the facilities related to the transportation, storage and distribution of natural gas, LPG, ethane and refined products, and the generation of electric energy. These laws, regulations and official standards may also require the Company to obtain and maintain the following with respect to the construction and operation of its facilities: environmental impact authorizations; risk studies; accident prevention program authorizations; forestry land use change authorizations; air emissions operation licenses; local land use permits and construction licenses; waste disposal permits and authorizations including hazardous, special management and urban solid wastes; concession titles or permits for the use and exploitation of water and the discharge of wastewaters; and concession titles for the use of federal zones, construction of maritime infrastructure or installation of new equipment required for its operations. See "Business - Legal, Administrative and Arbitration Proceedings." The failure to obtain and maintain these authorizations, licenses, permits and concessions could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Even once obtained, compliance with authorizations, permits, concessions, regulations and license terms and conditions may be expensive, difficult or economically unfeasible thereby curtailing future operations. Moreover, governmental agencies could take enforcement action against the Company for its failure to comply with their laws, regulations, official standards and related policies. These enforcement actions could include, among other things, the imposition of economic fines or remediation obligations, the seizure of machinery and equipment, the revocation of licenses and/or the temporary or permanent closure of part or all of a facility, and possibly imprisonment if environmental violations are classified as criminal offenses. Compliance with enhanced environmental, safety and health regulations, including as a result of any environmental contamination or pollution for which the Company may be held liable in the future, could require it to divert resources to make capital expenditures. In addition, complying with environmental health and safety laws, regulations, official standards and related policies, including obtaining related licenses, permits, concessions and/or authorizations, could cause delays in the schedule of construction and improvements of any of the Company's on-going projects and/or facilities for the transportation, storage and distribution of natural gas and other hydrocarbons and for the generation of electricity. Private parties may also have the right to pursue legal actions to enforce compliance and to seek damages for personal injury, property damage, environmental damage caused to third parties or for non-compliance with respect to environmental laws, as well as compensation or remedial action of any environmental damage, as may be the case, which is independent of any civil, criminal or administrative liability. The failure to comply with these authorizations, permits, concessions, regulations and license terms and conditions could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Mexico is also a party to many international agreements regarding environmental protection. The Company anticipates that the regulation of its business operations under Mexican federal, state and local environmental laws and regulations will increase and become more stringent over time, including as a result of international agreements. Such international agreements, upon ratification by the Mexican Senate, become a part of Mexican law. Under the North American Agreement on Environmental Cooperation, or NAAEC, a side agreement to NAFTA, each country that is a party to NAFTA, including Mexico, must ensure that its environmental laws and regulations are duly enforced. While the NAAEC does not empower any of the environmental agencies of the three NAFTA partners to enforce the environmental laws of another party, if a NAFTA partner fails to enforce its domestic environmental laws, it may be subject to the dispute mechanism created within the NAAEC, which may lead to monetary penalties, and in some cases, to the suspension of NAFTA benefits, the result of which could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While it is difficult to predict the scope and effect of new environmental laws and regulations, such changes could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. Currently, the NAAEC and NAFTA are being renegotiated. If these agreements are terminated or otherwise modified, such termination or modification could materially impact Mexico's energy and environmental sectors.

The Mexican Federal Environmental Liability Law (*Ley Federal de Responsabilidad Ambiental)*, which became effective in July 2013, provides for significant penalties for damages to the environment and could subject it to significant liability in the event of any such damage. However, the Company cannot predict the outcome of any action brought against it or the extent to which it could be held liable under such law. See "Regulation, Permits and Environmental Matters." The cost of remediating or providing compensation for any environmental damage could be significant and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company cannot predict the potential effects on its business of the new legal framework for regulating the energy sector in Mexico.

Mexico has developed a new legal framework for the regulation of the hydrocarbon and electric power sectors based on a package of constitutional amendments approved by the Mexican Congress in December 2013 and implementing legislation enacted in 2014, including the amendment of certain existing laws in August 2014 and the issuance of new regulations thereunder in October 2014. The new legal framework for the Company's pipelines, natural gas distribution and refined products businesses is set forth in the new Mexican Hydrocarbons Law (Ley de Hidrocarburos), the Mexican Hydrocarbon General Regulations (Reglamento de la Ley de Hidrocarburos) and the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbons Law (Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos). The power generation business is subject to regulation under the Mexican Electricity Industry Law (Ley de la Industria Eléctrica) and the Regulations Under the Law for the Electricity Industry (Reglamento de la Ley de la Industria Eléctrica), except for "grandfathered" projects, which remain governed by the Mexican Public Electricity Service Law (Ley del Servicio Público de Energía Eléctrica) and the regulations issued thereunder to the extent they do not conflict with the new legal framework. However, given the recent creation of this legal framework, it is uncertain how it would be interpreted in practice. The Company also cannot predict the manner in which the new legal framework would affect any new business opportunities the Company may wish to pursue. See "Regulatory, Permits and Environmental Matters." For example, since the publication of the constitutional amendments relating to the Mexican energy sector in December 2013, a number of Mexican authorities and government-related entities have published in the Mexican Official Gazette more than 100 laws, regulations, resolutions, rules, notices and other provisions relating to hydrocarbons, and more than 50 relating to electric power, the vast majority of which are intended to regulate the activities of participants in the Mexican energy sector.

The changes introduced by the new legal framework may require the Company to obtain an amendment of its existing permits or secure additional permits to operate the natural gas, LNG, LPG, ethane, refined products or power generation facilities or render of services, take additional actions to secure the requisite rights-of-way for its projects, perform social impact assessments, or upon consultation with the competent authorities, obtain the consent of indigenous communities for the development of its projects. The Company cannot assure you it would be able to satisfy any new requirement affecting the existing permits or rights-of-way, or to secure any additional permit, approval or right-of-way required under the new legal framework. If the Company fails to satisfy any such requirement or if it cannot obtain any such permit, approval or right-of-way in a timely fashion, the Company may be unable to operate or may experience delays in the development, construction and operation of its energy infrastructure projects. Furthermore, any change in the operating and disclosure rules for the Mexican energy sector, or any cost increase associated with complying with any gas emissions reduction or social impact assessment obligations, or with obtaining the consent of indigenous communities for the development of new projects, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its Shares.

Among other things, as a result of the amendment of the legal framework for the Mexican energy sector, Pemex and the Mexican Federal Electricity Commission ceased to be decentralized agencies of the Mexican government and became independent, government-owned operating companies with technical, operational and administrative autonomy. The new legal framework generally, and the provisions governing the budgets of these Mexican government-owned companies specifically, have not yet been the subject of judicial or administrative interpretation and it is uncertain how they would be interpreted in practice. See "Regulatory, Permits and Environmental Matters."

The Company cannot predict the impact that legal, regulatory and social responses to climate change may have on its business.

A number of legal and regulatory measures as well as social initiatives have been introduced both internationally and in Mexico in an effort to reduce greenhouse gases and other carbon emissions. The Mexican Electricity Industry Law and its regulations impose an internal system aimed at encouraging the use of electricity generated through clean energy sources while introducing negotiable clean energy certificates as well as other measures aimed at achieving greenhouse gas reductions, which could result in additional costs in the Power Segment, and in turn could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In 2017, at the 23rd Conference of Parties to the United Nations Framework Convention on Climate Change, or COP23, in Bonn, Germany, there was the addition of countries such as Nicaragua and the exit of the United States of America. Among the main topics that were included in the agenda were: (i) progress in the discussions to achieve the implementation of the Paris Agreement of 2020; (ii) the launch of the "Alliance for a coal-free energy future" led by the United Kingdom and Canada and endorsed by countries such as Mexico, which highlighted that the use of coal as energy must disappear in the OECD countries and in the European Union by 2030, and in 2050 in the rest of the countries; (iii) the need to strengthen climate financing; and (iv) Canada, Mexico and the Climate Alliance, composed of 15 states of the United States, launched a new North American Dialogue on Climate Leadership, from which measures will be promoted to carry out the Mexican proposals on the adaptation and development of early warning systems, as well as commitments to reduce emissions of short-lived pollutants, which Mexico has already begun.

In order to comply with these agreements, Mexican regulatory authorities will seek to ensure that the Company conducts its businesses in strict compliance with the Mexican Law on Climate Change, its regulations related to the National Emissions Registry, the Mexican National Strategy on Climate Change (*Estrategia Nacional de Cambio Climático*), the Mexican Special Program on Climate Change (*Programa Especial de Cambio Climático*) and the Mexican National System on Climate Change (*Sistema Nacional de Cambio Climático*). Accordingly, the Company will be required to assume and take into increased consideration the climate-related challenges posed by its operations or facing the existing partners and customers, such as Pemex and the Mexican Federal Electricity Commission, which could force it to incur in additional costs and could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company may be exposed to high costs to acquire LNG in order to maintain the operations of its LNG terminal.

In order for the LNG terminal to be operational, to prevent equipment damage from thermal expansion or contraction during warming and subsequent re-cooling, and to provide service when needed by customers, the storage tanks and piping must be kept at or below approximately -160° Celsius by maintaining a minimum volume of LNG in the system. That need will be met if one or more of the customers maintain a sufficient amount of LNG in the Company's terminal. However, other than the subsidiary customer IEnova Marketing, which has agreed to use reasonable efforts to procure LNG for its terminal at the Company's request, none of the customers has an obligation to deliver cargoes or maintain a minimum LNG inventory, and the Company cannot assure you that the customers will do so. Of the terminal's capacity holders, only IEnova Marketing has delivered LNG cargoes to the terminal. Based on the market price of LNG relative to the price of natural gas markets typically served using regasified LNG from the LNG terminal, the Company does not anticipate that third-party customers, Shell Mexico, or Shell, and Gazprom Mexico, or Gazprom, will deliver LNG to the terminal in the near future, and the Company does not anticipate that in the near future the subsidiary IEnova Marketing will deliver more than the minimum quantities required to keep the terminal cold.

In the event that the Company's LNG terminal customers were not maintaining the necessary minimum volume of LNG in the terminal, the Company would need to secure LNG in the market in order to maintain the cold temperature of the terminal. If the cost to secure such volumes were to exceed the Mexican natural gas market price for which the Company could resell the regasified LNG, it could be subject to financial losses. In addition, if the quality of LNG that is delivered to the terminal is different from historical quality, or if the natural gas specifications in the United States or Mexico become more restrictive, the Company may need more LNG to keep the terminal cold than the Company is currently estimating. The costs of securing cargoes in the open market could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company is assessing the possibility of adding liquefaction capabilities to the LNG terminal, but its efforts to such end may prove unsuccessful. In addition, the successful addition of such capabilities could force it to terminate the existing agreements with the regasification customers, which could give rise to indemnification obligations to such customers.

The Company is assessing the possibility of adding liquefaction capabilities to the LNG terminal. In the first quarter of 2015, the Company, Sempra Energy and a Pemex affiliate entered into several cooperation and coordination agreements for the development of natural gas liquefaction facilities at LNG terminal. The Company's LNG terminal is the subject of certain disputes challenging the issuance of the construction and operation permits and authorizations for its LNG terminal, or LNG terminal permits, which may hinder its ability to secure financing for the project or to identify suitable partners and customers. In addition, because the Mexican permitting process and U.S. regulations for the delivery of natural gas to LNG facilities located in Mexico are still under development, the Company cannot assure you that the Company would not face significant challenges in securing the requisite construction permits or building the relevant facilities, and any such challenge could hinder its ability to secure adequate financing or to identify suitable partners and customers for this project. In addition, the development of the proposed liquefaction project will depend to a large extent on the condition of the global markets for LNG, including, in particular, as it relates to the supply and demand for LNG from the west coast of the Americas (also taking into consideration the recent expansion of the Panama Canal), and on the Company's ability to obtain adequate supply or storage of natural gas from the United States. There are a number of potential LNG liquefaction projects under construction or in the process of being developed by various project developers in North America, including the Company's indirect, controlling shareholder's contemplated new projects, and given the projected global demand for LNG, the vast majority of these projects likely will not be completed. In addition, an extended decline in current and forward projections of crude oil could reduce the demand for natural gas in some sectors and cause a corresponding reduction in projected global demand for LNG, which could, in turn, result in increased competition among developers of LNG projects. The Company's LNG terminal has in place several profitable long-term regasification agreements that account for 100% of the terminal's installed capacity. Any decision on whether to add liquefaction capabilities to the terminal will depend in part on whether the investment in the construction of the requisite facilities would be more profitable than the continuing provision of only regasification services, under the existing agreements. Pursuant to the Company's existing agreements, the Company is required to provide storage and regasification services to its customers through 2028 (or later, if customers exercise their renewal rights under such agreements). The Company may opt for offering both regasification and liquefaction, or only liquefaction services to its customers, or for continuing to provide regasification services only. If the Company is unable to continue to offer regasification services to its existing customers, or if the construction of the liquefaction facilities renders it unable to provide such services on a timely fashion, the Company may be held liable for indemnification to such customers under the existing agreements, which could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company has relied on and may continue to rely on certain affiliates for services and financing and there can be no assurance that in the future the Company will be able to obtain such services or financing from its affiliates or from alternate third parties.

The Company relies on certain of its affiliates to provide various technical, administrative and management services, and expects to continue to do so in the future. The Company depends to a certain extent on these affiliates for the successful operation and development of its energy infrastructure projects. The Company has agreements in place pursuant to which these services are being rendered, as more fully described in "Related Party Transactions and Conflicts of Interest." However, there is no obligation on the part of these affiliates to provide these services upon the expiration of the existing agreements. While the Company intends to continue to rely on affiliates for these services, the Company may not be able to obtain such services from these affiliates or any alternate third party in the future at reasonable prices or at all. Any failure to obtain these key technical, administrative and management services on acceptable terms could materially adversely affect the Company's ability to satisfy its contractual obligations, or to grow its business, and have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

As of December 31, 2017 the Company had outstanding borrowings from affiliates in the amount of approximately USD$583.3 million. If the Company's affiliates do not provide it with debt financing in the future, the Company may be unable to secure alternative sources of funding, which would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While the Company believes that the rates and terms of the borrowings the Company has received in the past from its affiliates are comparable to those the Company would have obtained from unrelated third parties in arm's-length transactions, it can provide no assurance that the Company would have been able to obtain such borrowings from unrelated third parties at rates and on terms that were as favorable to it as those the Company has received from its affiliates. The Company may not be able to obtain similar financing from these affiliates or any alternate third party at reasonable rates and terms or at all. Any failure to obtain sufficient debt financing on acceptable rates and terms could adversely affect the Company's ability to satisfy its contractual obligations or to grow its business, and could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Recent Developments."

In addition, the Company's indirect controlling shareholder, Sempra Energy, has guaranteed certain of the Company's financial obligations, including the obligations of IEnova Marketing to the LNG terminal under its firm storage services agreement and to the Company's pipelines business under its transportation service agreements, as well as to third parties. The Company can provide no assurance that Sempra Energy will be willing to provide similar credit support in the future on other commercial contracts that the Company may enter into or the terms it may require from the Company in exchange for providing such credit support. In the event that the Company is unable to obtain such credit support from Sempra Energy on commercially reasonable terms, or at all, the Company can provide no assurance that the Company would be able to obtain such credit support from third parties on commercially reasonable terms, or at all. Any failure to obtain credit support could limit the Company's ability to enter into certain commercial contracts or adversely affect the terms of commercial contracts that the Company does enter into, which could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Related Party Transactions and Conflicts of Interest."

The Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of the Company's securities may be materially adversely affected by the outcome of pending litigation against it or affecting its permits or property rights in connection with its LNG terminal and its Energía Sierra Juárez wind powered generation project.

Several parties have initiated actions with the Mexican Ministry of the Environment or the Mexican Environmental Protection Enforcement Agency, challenging the environmental impact authorization for the Company's LNG terminal, and one party has brought a civil action challenging the LNG terminal permits. While, to date, the Mexican Ministry of the Environment and the Mexican Environmental Protection Enforcement Agency have found against the claimants challenging this environmental authorization, the claimants have appealed these determinations. In the event any of these parties were to ultimately prevail against us, this could result in a modification to (or in extreme circumstances, a nullification of) the Company's environmental authorization or one or more of the LNG terminal permits. To the extent that any such modifications require new investments to comply with more stringent mitigation measures or conditions, such modifications could materially adversely affect the Company's terminal operations. If the Company's environmental authorization or one or more of the LNG terminal permits were to be nullified, it could result in the terminal being unable to continue operations, which also could result in breaches of one or more permits or contracts to which the Company is a party. Any modification or nullification of the Company's environmental authorization or one or more of the LNG terminal permits could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company is also engaged in disputes regarding its title to the properties on which the Company's LNG terminal is located. In the event that the Company is unable to defend and retain title to the properties on which the Company's LNG terminal is located, it could lose the Company's rights to occupy and use such properties and the terminal, which could result in breaches of one or more permits or contracts that the Company has entered into with respect to such terminal. If the Company is unable to occupy and use such properties and the terminal, it could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In addition, a Mexican non-governmental environmental organization has filed an administrative appeal challenging the Environmental Protection Minitry's issuance of the environmental impact authorization for the construction and operation of the Company's Energía Sierra Juárez wind power generation facility. If the claimant contesting the Company's environmental authorization prevails, it could be modified or annulled, which could materially adversely affect the timing or development of that project and have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. Further, the Company recently concluded a legal proceeding brought by private U.S. claimants in U.S. federal court challenging the issuance of the U.S. Presidential Permit by the U.S. Department of Energy for the construction of the cross-border transmission line for such project. On October 27, 2017, both the U.S. Department of Energy and Energía Sierra Juárez filed notices of appeal with the United States Court of Appeals for the Ninth Circuit; however, the Company does not expect its operations will be affected by these appeals. See "Business-Legal, Administrative and Arbitration Proceedings-Energía Sierra Juárez Litigation."

The Company has spent, and continues to spend, substantial amounts of money and time defending these lawsuits, and in related investigations and regulatory proceedings. The uncertainties inherent in legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving these matters. In addition to the matters described above, from time to time the Company may become involved in other litigation and administrative proceedings relating to claims arising out of the Company's operations and properties. These may include claims filed by suppliers and customers, government regulators, including tax authorities, neighboring residents and environmental activists, as well as labor disputes. The outcome of these proceedings may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the legal and administrative proceedings to which the Company is a party, see "Business - Legal, Administrative and Arbitration Proceedings."

Various governmental entities may prematurely terminate the Company's permits under various circumstances, some of which are beyond the Company's control.

Permits granted by the Mexican Energy Regulatory Commission (including the Company's LNG storage permit, refined products storage permits, transportation permits, distribution permits, and power generation permits) are essential for the operation of the Company's assets, and the Company would be unable to continue the operations of a particular asset without the applicable permit granted by the Mexican Energy Regulatory Commission.

A permit may be revoked by the Mexican Energy Regulatory Commission for certain reasons set forth in such permit and in the laws relating to natural gas, LPG, hydrocarbons and electric power that were in effect when the permit was granted, including (1) if the Company engages in discriminatory practices or charges rates in excess of the maximum rates established by the Mexican Energy Regulatory Commission, (2) if the Company assigns, transfers or creates a lien on the permit in violation of its terms or the applicable law, or (3) if it fails to take action to utilize the permit within the term provided therein. In addition, the Company's permits may be revoked in certain circumstances, including if the Company does not comply with its obligations under Mexican official standards or conditions under the permits, or if the Company experiences partial or total interruption in the operation of the system or facility without justified cause or authorization from the Mexican Energy Regulatory Commission.

The Mexican Electricity Industry Law and the Mexican Hydrocarbons Law provide for similar revocation events that would apply to any new permit the Company obtains for purposes of its business activities. These events include: (1) engaging in discriminatory practices that affect end consumers, (2) failing to comply with the regulation relating to rates and tariffs, (3) assigning a permit without the prior approval of the Mexican Energy Regulatory Commission, (4) failing to exercise the Company's rights under the relevant permit within certain period of time, (5) failure to maintain in full force and effect the required collateral and insurance or (6) the interruption of services without justified cause.

The early termination of any of the Company's related permits and the suspension of the operations of any of its assets, or the imposition of changes to the manner in which it operates any of its assets as a result of changes to the permits requested by the Mexican Energy Regulatory Commission, may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Natural disasters, accidents, acts of terrorism or criminality could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company's facilities, including the Company's LNG terminal, pipeline systems, storage and distribution systems, power generation facilities, and office buildings may be damaged by natural disasters, accidents, acts of terrorism or criminality. Substantially all of the Company's assets are located in areas of northern and central Mexico that are susceptible to earthquakes and wildfires. Natural disasters, accidents, acts of terrorism or criminality could result in severe business disruptions, significant decreases in revenues, and/or significant additional costs to us. Any such incident could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries or fatalities. Any of these consequences could lead to significant claims against us. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds the Company receives may be insufficient to cover the Company's losses or liabilities, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. In particular, the Company has declared a force majeure event for the Guaymas - El Oro segment of the Sonora pipeline in the Yaqui territory, and as a result, operation of that segment has been interrupted since August 23, 2017. The Company has begun a series of actions with relevant governmental authorities in order to resume operations. The Company believes that the relevant transportation services agreements for the Sonora pipeline provide adequate protection with regards to the interruption of operations, and the Company has not experienced an economic impact.

The volatility of oil and natural gas prices could have a material adverse effect on the Company's financial condition.

The sharp decline in oil prices since late 2014 and the low prevailing prices of natural gas have had a negative effect on Pemex's revenues, profits and cash flows. Some rating agencies have expressed concern regarding Pemex's financial condition, including its aggregate debt, which has increased significantly in recent years. Pemex is a significant customer of the Company, and if Pemex becomes unable to satisfy its contractual obligations to the Company, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its Shares.

Business development activities may not be successful and projects under construction may not commence operation as scheduled or be completed within budget, which could materially increase the Company's costs and materially impair its ability to recover its investments.

The acquisition, development, construction or expansion of the Company's LNG terminal, natural gas, ethane, LPG and refined product pipelines, storage and distribution facilities, electricity generation and transmission facilities, and other energy infrastructure projects (such as the Company's potential liquefaction plant) involve numerous risks. The Company may be required to spend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal, and other expenses before it can determine whether a project is feasible, economically attractive, or capable of being built.

Success in developing a particular project is contingent upon, among other things:

- Obtaining the necessary property rights and other real estate rights;
- Negotiation of satisfactory engineering, procurement and construction agreements;
- Negotiation of supply and natural gas or electricity sales agreements or firm capacity supply agreements;
- Timely receipt of required governmental permits, licenses authorizations, and rights-of-way;
- Negotiation with local communities and minority groups;
- Timely implementation and satisfactory completion of construction; and
- Obtaining adequate and reasonably priced financing for the project.

Successful completion of a particular project may be adversely affected by various factors, including:

- Unforeseen engineering problems;
- Unforeseen problems to obtain the requisite rights-of-way and easements, including as a result of the Company's discussions with local and indigenous communities;
- Construction delays and contractor performance shortfalls;
- Work stoppages, strikes or boycotts;
- Equipment unavailability or delay and cost increases;
- Adverse weather conditions;
- Environmental and geological conditions;
- Opposition or challenges (judicial or extrajudicial) by community organizers, stakeholders of industries affected by energy development activities, non-governmental environmental organizations or indigenous communities;
- Risks related to brownfield projects, such as hidden defects, inherited environmental liabilities and problems with rights-of-way;
- Unanticipated increases in costs associated with known or unknown adverse environmental conditions, including costs of compliance with environmental laws; and
- The impact of exchange rates on the cost of imported material and equipment.

If the Company experiences material delays or is unable or elects not to complete the development of a project or obtain the required permits, rights-of-way or easements for such project, including all the projects currently in development and construction phases, the Company may be unable to recover its investment in such project or have to make payments under contractual obligations the Company has made, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company may not be successful in obtaining new energy infrastructure projects.

The market for new energy infrastructure projects in Mexico is highly competitive. The Company competes with Mexican and foreign companies for most of the new energy infrastructure projects in Mexico and some of the Company's competitors may have better access to capital and greater financial and other resources, which would give them a competitive advantage in bidding for such projects. The Company may also face increased competition for new energy infrastructure projects and to retain the key employees as a result of the recent amendment of the legal framework for the regulation of Mexico's energy sector. The Company may also decide to compete for energy infrastructure projects in new sectors where the Company has not previously operated, and it may not be able to fully realize the benefit of these new opportunities as it may lack experience or familiarity in these areas. For additional information regarding the new energy reforms, see "Regulation, Permits and Environmental Matters." In addition, there are a number of potential new LNG liquefaction projects under construction or in the process of being developed by various developers in North America, including the Company's indirect controlling shareholder's contemplated new projects, and given the projected global demand for LNG, the vast majority of these projects likely will not be completed. Furthermore, the Company may not be able to obtain additional permits from the Mexican Energy Regulatory Commission, the Ministry for the Environment (*Secretaría de Medio Ambiente y Recursos Naturales*) or the Mexican Energy Ministry, or the favorable opinion of the Mexican Antitrust Commission, which may be required for new energy infrastructure projects. Furthermore, the projections relating to the Mexican energy sector's growth, included in this report, may not ultimately be correct. The inability to succesfully obtain new energy infrastructure projects may adversely affect the Company's ability to grow its business, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company's business is capital-intensive and changes in capital requirements or the availability of capital could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Any expansion of the Company's businesses will be capital-intensive and require significant investment. The amount and timing of the capital investments and expenditures for any new energy infrastructure projects will depend in part on market conditions. The Company may not be able to accurately predict the timing or amount of capital investment and expenditures that would be required for its new projects.

To the extent that the Company does not have sufficient internal resources available to fund new projects, the Company may be required to access external resources, which may be subject to certain limitations on the availability of credit and/or other financial alternatives and increases in interest rates or credit spreads. In difficult credit markets, the Company may find it necessary to fund its operations and capital expenditures at a higher cost or on other terms that are unfavorable to us, or the Company may be unable to raise as much funding as it needs to support business activities. This could cause the Company to reduce capital expenditures and could increase the Company's cost of funding, both of which could reduce the Company's short-term and long-term profitability, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

When the Company enters into fixed-price long-term contracts to provide services or commodities, the Company is exposed to inflation, interest rate, foreign exchange and counterparty credit risks.

The Company generally endeavors to secure long-term contracts with customers to optimize the use of the Company's facilities, reduce volatility in earnings and support the construction of new infrastructure. However, if these contracts are at fixed prices, the profitability of the contract may be materially adversely affected by inflationary pressures (in the case of contracts that are not adjusted for inflation), including rising operational costs and commodity prices, fuel costs, costs of labor, materials and equipment, rising interest rates affect financing costs, and changes in the U.S. Dollar to Mexican peso exchange rate. In addition, the counterparties to the Company's long-term contracts could incur in default with their obligations thereunder and any such default could have a material adverse effect on the Company. While the Company frequently requires that counterparties provide it with bank or other types of guaranties, the financial support provided by the guarantors is not always sufficient to fully offset any losses the Company may suffer and exposes it to counterparty risks. Any of these factors may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The operation of the Company's facilities involves many operating risks, availability risks, technology risks and other risks beyond the Company's control.

The operation of the Company's LNG terminal, pipelines, distribution systems and power generation facilities involves many risks, including, among others:

- The possibility of performing below expected levels of output or efficiency;

- Facility shutdowns due to wear and tear, defects, design errors or the breakdown or failure of equipment or processes, or shortages of replacement equipment, consumables such as oil and grease, or spare parts;
- Unanticipated costs of operations and maintenance;
- Failure to operate at design specifications;
- Operator error;
- Government exercise of eminent domain power or similar events; and
- Operational accidents.

If any of these risks were to manifest, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company depends on a limited number of customers (some of whom are affiliates) with which it has entered into long-term agreements.

The Company has entered into long-term LNG terminal capacity agreements with Shell, Gazprom and IEnova Marketing, under which users pay capacity reservation and usage fees to receive, store and regasify their LNG at the LNG Terminal. The Company has also entered into long-term capacity agreements with a limited number of key customers, including the Mexican Federal Electricity Commission, CENAGAS, Pemex TRI, Shell, Gazprom, InterGen and its subsidiary IEnova Marketing, under which users pay capacity reservation and usage fees to receive, transport and deliver natural gas or LPG, as applicable, through the Company's pipelines. After giving effect to the consolidation of the intercompany revenues received from IEnova Marketing, during the years ended December 31, 2017, 2016 and 2015 the Company's four largest customers together accounted for approximately 60%, 69% and 72%, respectively, of total revenues. During the same periods, no other customer accounted for more than five percent of the Company's total revenues. In each of 2017, 2016 and 2015, the largest customer accounted for approximately 27%, 31% and 29%, respectively, of the Company's total revenues.

Shell has obtained credit support from BNP Paribas in the amount of USD$129.2 million with respect to its obligations to the Company's LNG business (which amount is permitted to decrease over the life of the contract between the Company and Shell), and credit support from Shell Finance (Netherlands) B.V. in the amount of USD$88.4 million with respect to its obligations to the Company's pipelines business. Gazprom has obtained credit support from Oversea-Chinese Banking Corporation Limited, ABN AMRO Bank N.V., Mizuho Securities Inc. and Citibank, N.A., for an aggregate amount of USD$89.2 million with respect to its obligations to the Company's LNG business. IEnova Marketing has obtained credit support in the amount of US$282 million from Sempra Energy with respect to its obligations to the Company's LNG business and in the amount of USD$171.5 million with respect to its obligations to the Company's pipelines business. However, there can be no assurance that such credit support amounts would be sufficient to compensate the Company for the damages it might incur if these customers were to default under their obligations.

Typically, these agreements are subject to (1) early termination provisions for the failure of a party to perform its obligations under the agreement, or in the event of insolvency of any of the parties, (2) suspension or termination provisions for *force majeure* events beyond the control of the parties, and (3) substantial limitations on remedies for other failures to perform by any of the parties, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach agreements. In addition, each of the Federal Electricity Commission and the Mexican Public Administration Ministry (*Secretaría de la Función Pública*) may also terminate the agreement before expiration if it determines that doing so would be in the general public interest *(interés público)* by providing evidence that compliance with the agreement would result in losses and damages to Mexico or if, for justified cause, the Mexican Federal Electricity Commission no longer requires the supply of natural gas, in each case subject to a hearing and other due process procedures.

If the customers in one or more of these agreements were to fail to perform or become unable to meet their contractual obligations on a timely basis, or if any of these agreements is prematurely terminated, it could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. Furthermore, there can be no assurance that, in the event of termination of any of these agreements, the Company would be able to enter into LNG storage capacity or natural gas transportation service agreements with other users or customers on a long-term basis, on otherwise favorable terms, or at all, and the Company's inability to do so could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company depends on key suppliers, including an affiliate of its indirect controlling shareholder, for the adequate operation of energy infrastructure assets.

The Company's businesses depend on key suppliers performing in accordance with their agreements. In particular, the Company's LNG business has been relying upon Sempra Natural Gas (a business operating division of Sempra Energy that includes the Company's U.S. subsidiaries that sell LNG and buy and/or sell natural gas and electricity to and from Sempra Energy) for an adequate supply of LNG to keep the Company's LNG terminal sufficiently cold to remain in continuous operations and as a source of natural gas to sell to customers. Since the Company's LNG terminal commenced operations, the Company has not been able to obtain sufficient quantities of LNG from Sempra Natural Gas to satisfy all of IEnova Marketing's contractual obligations to its natural gas customers using regasified LNG. However, Sempra Natural Gas is able to purchase and supply the required quantities of gas at the U.S. border, and Sempra Natural Gas makes payments to IEnova Marketing to cover fixed LNG terminal and pipeline capacity costs to the extent its reserved capacity is underutilized because it provides IEnova Marketing less than the full amount of LNG each year. This payment obligation has mitigated the losses that IEnova Marketing would otherwise have experienced in recent years. With respect to the ECOGAS natural gas distribution business, since 2018 the Company has relied principally on SoCalGas for the supply of natural gas that the Company distributes to its customers. If this key supplier fails to perform, the Company could incur substantial expenses, and in some cases, be exposed to commodity price risk and volatility, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company is also exposed to the risk that its suppliers that owe money or commodities as a result of market transactions or other long-term agreements fail to perform their obligations under such agreements. Should they fail to perform, the Company may be required to acquire alternative hedging arrangements or to honor underlying commitments by making purchases from other suppliers at then-current market prices. In such event, the Company may incur additional losses to the extent of amounts paid to such suppliers. Furthermore, any financial difficulties suffered by its suppliers could increase the Company's costs or adversely impact the operation of the energy infrastructure. The Company's potential LNG suppliers may also be subject to international political and economic pressures and risks, which may affect the supply of LNG.

The financial condition of any of the Company's suppliers could be harmed by a number of events, including natural disasters, accidents or acts of terrorism, which could restrict the suppliers' ability to fulfill their obligations to us. The payment terms in the Company's agreements with suppliers are considered customary in the markets in which the Company participates. However, a material change in the payment terms with the Company's strategic suppliers could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company relies on transportation assets and services that the Company does not own or control to deliver electricity and natural gas.

The Company's facilities are interconnected with other facilities outside the served areas. Therefore, the Company often depends on electric transmission lines, natural gas pipelines and other transportation facilities owned and operated by third parties to:

- Deliver the electricity, natural gas and LPG the Company sells to its customers;
- Supply natural gas to the Company's electric generation facilities;

- Provide retail energy services to customers; and
- Supply the Company with natural gas and LPG for sale to its customers.

The Company also depends on natural gas pipelines to interconnect with its suppliers and customers, and relies on specialized ships to transport LNG to its LNG terminal and on transmission lines to transport the electricity that it sells to its customers. If transportation is disrupted, or if capacity is inadequate, the Company's ability to sell and deliver its products and services may be hindered. As a result, the Company may be responsible for damages incurred by its customers, such as the additional cost of acquiring alternative natural gas, LPG or electricity supplies at then-current spot market rates, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

If the commodities shipped in the Company's pipelines fail to meet certain specifications, it could result in curtailments by interconnecting pipelines or markets.

Mexican Official Standards (*Normas Oficiales Mexicanas*) establish specifications for the products that may be delivered through natural gas, LPG and ethane pipelines. These specifications include requirements such as hydrocarbon dew point, compositions, temperature and foreign content (such as water, sulfur, carbon dioxide and hydrogen sulfide). If the total mix of products that the Company delivers to a pipeline or market fails to meet the applicable product quality specifications set forth in the Mexican Official Standards, the Company is required to disclose such non-compliance to the producer and to the pipeline or market that scheduled the delivery. The pipeline or market may refuse to accept all or a part of the non-compliant products scheduled for delivery to it, potentially reducing the Company's through-put volumes or revenues, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company does not own all of the land on which the Company's pipelines, facilities and ancillary infrastructure are located, so its operations could be disrupted by actions of the landowners. Some of the Company's pipelines cross waterways, in which case governmental approval from entities such as the Mexican National Water Commission (Comisión Nacional del Agua) is required. Furthermore, delays or the impossibility of obtaining the release of rights-of-way to the land, through which some of the Company's energy projects currently under construction will be laid, may cause material cost increases and delays in the start of operations.

The Company does not own all of the land on which the Company's pipelines, facilities and ancillary infrastructure, such as power transmission lines and aqueducts, have been constructed. Some of the Company's pipelines cross waterways, in which case governmental approval from entities such as the Mexican National Water Commission is required to maintain such a crossing. The Company typically obtains the rights to construct and operate the Company's pipelines and ancillary infrastructure on land owned by third parties and governmental agencies for a specific period of time. The Company is therefore subject to the possibility of more onerous terms or increased costs to retain necessary land use if in the future it is determined that the Company does not have valid rights-of-way or leases, or if such rights-of-way or leases lapse or terminate. The Company's loss of these rights, through the inability to renew right-of-way or lease contracts or otherwise, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company may face construction delays or increases in costs in the energy generation projects as a result of delays or the impossibility of obtaining rights-of-way to the land through which power transmission lines, pipeline installations or other infrastructure will be constructed. Moreover, power transmission line projects require the Mexican federal government, the permit holder, or both, to obtain legal authorizations to use third party land to construct and operate a particular project. If rights-of-way are not obtained on time, the Company may incur additional costs and delays in the start of operations. Furthermore, in the event that rights-of-way are impossible to obtain, the Company may be required to change the route of a project, which may also result in cost increases and delays in the start of operations and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company is exposed to market risks, including fluctuations in commodity prices, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company buys energy-related commodities from time to time in order to satisfy contractual obligations with customers. The Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities could be materially adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that the Company buys change in a direction or manner not anticipated and for which the Company had not provided adequately through purchase or sale commitments or other hedging transactions. In addition, while at present the Company is not directly exposed to market risks in connection with the ECOGAS natural gas distribution business because the price the Company pays for natural gas is passed through to the ECOGAS customers, natural gas prices relative to LPG prices affect the Company's ability to sell natural gas, and accordingly, may have a material impact on the natural gas distribution business. On January 1, 2012, the Company's Termoeléctrica de Mexicali power plant began selling electricity to the U.S. market on a merchant basis pursuant to an electricity management agreement with the affiliate, Sempra Generation. Under this arrangement the Company is no longer reimbursed for its purchases of natural gas to fuel Termoeléctrica de Mexicali power plant as the Company was in prior years and may also need to purchase electricity in the open market to satisfy contractual obligations. This arrangement exposes the Company to significantly more commodity price risk than the previous agreement the Company had in place to sell electricity from the power plant directly to the Company's affiliate Sempra Generation. Termoeléctrica de Mexicali power plant competes in the U.S. open market for the sale of electricity and other related products, and its profitability is affected by the price of commodities such as natural gas and the prices for its products in the open market. Additionally, under this new agreement the Company's annual costs of energy management services rose to approximately USD$5.0 million in connection with Termoeléctrica de Mexicali. Furthermore, the Company currently purchases natural gas to supply Termoeléctrica de Mexicali power plant directly from its subsidiary IEnova Marketing. Although the board of directors has approved a plan to market and sell the Termoeléctrica de Mexicali power plant, if the Company is unable to complete the sale of this plant, it will continue to be subject to commodity risk with respect to it.

The Company cannot and does not attempt to fully hedge its assets or contract positions against changes in commodity prices and the Company's hedging procedures may not work as planned.

To reduce financial exposure related to commodity price fluctuations, the Company may enter into contracts to hedge the Company's known or anticipated purchase and sale commitments, inventories of LNG and natural gas, and electric generation capacity and pipeline capacity. As part of this strategy, the Company may use forward contracts, physical purchase and sales contracts, futures, financial swaps and options. The Company does not hedge the entire exposure to market price volatility of its assets or contract positions, and the hedging will vary over time. To the extent the Company has un-hedged positions, or if its hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. When hedging its purchase and sale commitments, the Company is subject to the risk that the counterparty to the hedge may be unable to fulfill its obligations. Such failure could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Unanticipated changes in market prices for energy-related commodities result from multiple factors, including: (1) weather conditions, (2) seasonality, (3) changes in supply and demand, (4) transmission or transportation constraints or inefficiencies, (5) availability of competitively priced alternative energy sources, (6) commodity production levels, (7) activities by oil and gas producing nations or organizations affecting the global supply of crude oil and natural gas, (8) energy and environmental regulation legislation, (9) natural disasters, wars, embargoes and other catastrophic events, and (10) expropriation of assets by governmental authorities. Finally, the Company often extends credit to counterparties and customers. While the Company performs credit analysis prior to extending credit, the Company is exposed to the risk the Company may not be able to collect amounts owed to it. Such changes in market prices or inability to collect amounts owed to the Company could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the Company's hedging strategy and position, see "Management's Discussion and Analysis of Financial Condition and

Results of Operations-Liquidity and Capital Resources-Quantitative and Qualitative Discussion of Market Risk" and Notes 21 and 24 to the Company's audited financial statements included elsewhere in this report.

LPG prices could materially adversely affect the Ecogas natural gas distribution business.

Historically, LPG prices were subsidized by the Mexican federal government. Recently, however, the Mexican federal government has ended subsidizing LPG prices. If the Company is not able to obtain competitively priced natural gas relative to the LPG that is available to its customers and potential customers through its competitors, the profitability of the natural gas distribution business could be materially adversely affected, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Mexican federal government's electricity price subsidy policy could materially adversely affect the Ventika electric energy distribution business.

Currently electricity prices are subsidized by the Mexican federal government; these electricity subsidies could put Ventika power purchase agreements at a competitive disadvantage. If the Mexican federal government's electricity price subsidy policy continues and the Company is unable to provide electricity at prices that are competitive to those available to its customers and potential customers through its competitors, the profitability of the Ventika wind power generation facilities could be materially adversely affected, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company's risk management procedures may not prevent losses.

Although the Company has in place risk management systems and control systems that use advanced methodologies to quantify and manage risk, these systems may not always prevent material losses. Risk management procedures may not always be followed or may not always work as planned. In addition, daily value-at-risk and loss limits are based on historic price movements. If prices significantly or persistently deviate from historic prices, the limits may not protect the Company from significant losses. As a result of these and other factors, there is no assurance that the Company's risk management procedures will prevent losses that could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company conducts a significant portion of the Company's pipeline business through joint ventures over which it holds joint control.

The Company has a 50% interest in a joint venture with TAG Pipelines (a Pemex affiliate) and BlackRock, for the Los Ramones Norte pipeline, which began commercial operations in February 2016. The Company has entered into a joint venture with InterGen for the operation of the Company's Energía Sierra Juárez wind power generation project, which began operations in June 2015, and a 40% non-controlling interest in the South of Texas - Tuxpan pipeline project, which the Company is developing with TransCanada. As the Company shares the control of these joint ventures with its partners, and in the event of any disagreement between it and its partners the Company may be forced to sell its interest in the relevant joint venture, purchase its partners' interests therein or submit to dispute resolution proceedings. If any joint venture partner were unwilling to cooperate effectively with the Company in the management and operation of the joint venture, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The operation of the Company's facilities depends on good labor relations with the Company's employees.

As of December 31, 2017, the Company had 930 employees. These included 151 administrative employees and 779 operation and maintenance workers, of whom 35 were covered by collective bargaining agreements with several labor unions. The Company's collective bargaining agreements are negotiated on a facility-by-facility basis, and the compensation terms are adjusted on an annual basis, whereas all other terms are renegotiated every two years.

Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts might result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. The Company's facilities have not experienced any labor disruption since it began operations. Labor disruptions, strikes or significant negotiated wage increases, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company depends on its executives and employees and their unique knowledge of the energy sector and the Company's business segments, and the Company may not be able to replace key executives and employees if they leave.

The operations and continued growth of the Company's business is dependent upon being able to attract and retain personnel, including corporate management, specialized engineers and employees who have the necessary and required experience and expertise to manage and operate the Company's businesses. Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. The Company does not maintain key-man life insurance on its management team. In the event that the Company was to lose the services of any such personnel, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company's activities are concentrated in its energy infrastructure projects in the states of Baja California, Sinaloa, Sonora, Chiapas, Chihuahua, Coahuila, Durango, Nuevo León, Jalisco, Tamaulipas, San Luis Potosí, Aguascalientes, Tabasco and Veracruz, and developments affecting such regions specifically, such as a local recession, natural disasters, local regulation, increases in crime rates or political and social developments, may have a material adverse effect on us.

The Company's current energy infrastructure projects are primarily located in the states of Baja California, Sinaloa, Sonora, Chiapas, Chihuahua, Coahuila, Durango, Nuevo León, Jalisco, Tamaulipas, San Luis Potosí, Aguascalientes, Tabasco and Veracruz, and all the Company's current permits and approvals are issued by either the Mexican government or by local governmental authorities. As a result, any legislative changes, measures taken, stricter rules implemented or additional requirements imposed by the relevant governmental authorities (including changes derived from state and local elections) may materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. In addition, the Company is exposed to risks of a local recession, the occurrence of a natural disaster, an increase in local crime rates or local political and social developments in the regions in which the Company operates, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The insurance the Company contracts may be inadequate.

The Company has insurance for its operations in Mexico, including the Company's LNG terminal and related marine facilities, power generation facilities, pipeline systems, storage systems and power distribution systems, including property insurance, commercial general liability insurance, excess liability insurance, environmental liability insurance and business interruption insurance, in amounts and with deductibles that the Company considers appropriate. However, the Company cannot assure you that the insurance currently in place or other insurance that may be appropriate will be available in the future at commercially reasonable rates. In addition, in any particular instance the Company's insurance coverage could prove to be insufficient or an accident or casualty could occur that either is not covered or becomes the subject of a dispute. Currently, the Company does not carry certain types of insurance (for example, for losses caused by war or government action) because these types of losses are often not economically insurable.

If certain casualties occur, if there is a total or partial loss of the Company's facilities, or if there is extended business interruption, there can be no assurance that the proceeds from the Company's applicable insurance policies will be sufficient to cover lost revenues, increased expenses or the cost of repair or replacement. Further, there can be no assurance that at such time the Company's insurers or their reinsurers will be solvent. This loss of revenue, increased expenses or additional costs could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company regularly works with volatile and hazardous materials that subject it to risks that may materially impact the Company's operations.

The Company's business involves storing and transporting highly flammable and explosive materials, which are subject to extensive regulation. Even if the Company complies with requisite environmental, sanitary, security, transportation, risk management and safety requirements and standards, its operations are subject to significant hazards associated with using, storing, transporting and disposing of such materials, including:

- Explosions;
- Fires;
- Severe weather and natural disasters;
- Mechanical failure, including pipeline or storage tank leaks and ruptures;
- Discharges or releases of hazardous substances or gases;
- Other environmental risks; and
- Terrorist attacks.

If any of these hazards were to cause an accident, damage or destruction in relation to the Company's business, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Risks Relating to Business and Industry - The Company is subject to numerous environmental, health and safety regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures."

The Company's natural gas distribution business may face increased competition due to the expiration of its exclusivity period.

The Company's natural gas distribution business had been entitled to a 12-year period of exclusivity with respect to each of its three distribution zones. As the last of these exclusivity periods expired in 2011, the Company could face competition from other distributors of natural gas in all of the distribution zones as other distributors of natural gas are now legally permitted to build natural gas distribution systems within the distribution zones and compete with the Company for customers. To the extent that other distributors of natural gas expand or construct distribution systems in the distribution zones, that expansion or market entry could create additional competition against the natural gas provided to the Company's customers, and if the Company is unable to successfully compete against any such competitors, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company may be subject to interruptions or failures in the Company's information technology systems.

The Company relies on sophisticated information technology systems and infrastructure to support the Company's business, including process control technology. Any of these systems may be susceptible to outages due to fire, explosions, floods, power loss, telecommunications failures and similar events. Information technology system failures, network disruptions and breaches of data security could disrupt the Company's operations by causing delay or cancellation of transactions and reporting of financial results, resulting in the unintentional disclosure of customer or the Company's information, or cause damage to the Company's reputation. Such failures could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities, and the Company cannot assure you that its business continuity plans will be completely effective during an information technology failure or interruption.

New business technologies present a risk for attacks on the Company's information systems and the integrity of the power grid and pipeline infrastructure.

Elements of the Company's energy infrastructure may be exposed to cyber security risks. In addition to general information and cyber risks, such as malware, malicious intent by insiders and inadvertent disclosure of sensitive information, the energy industry faces evolving cyber security risks associated with protecting sensitive and confidential customer information, smart-grid infrastructure, automated metering, and other electronic infrastructure components. Deployment of new business technologies represents a new and large-scale opportunity for attacks on information systems and confidential information as well as the integrity of the energy grid and natural gas infrastructure. While the Company's information technology systems have been and will likely continue to be subjected to the risk of computer viruses or other malware, unauthorized access, attempts and cyber or phishing attacks, to date the Company has not experienced a material cybersecurity breach. Addressing these risks is the subject of significant ongoing activities across the Company's businesses, but no assurance can be given that a successful attack will not occur. Any attack on the Company's information systems, the integrity of the energy grid or any of the Company's facilities, or the unauthorized use of confidential customer data could result in energy delivery service failures, financial loss, violations of privacy laws, customer dissatisfaction and litigation, any of which, in turn, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In the ordinary course of the Company's business, it collects and retains sensitive information, including personal identification information about customers and employees, customer energy usage and other information. The theft, damage or improper disclosure of sensitive electronic data can subject the Company to penalties for violation of applicable privacy laws, subject it to claims from third parties, require compliance with notification and monitoring regulations and harm reputation.

New or alternative energy sources could reduce the market for natural gas, reducing the Company's revenues from the natural gas business.

Currently, industrial customers of the natural gas distribution business use natural gas as their main source of energy for their operations. However, in the future other energy sources might become available at competitive costs. This circumstance could affect the demand for natural gas and consequently the Company's revenues and financial position.

Individual households in Mexico satisfy their energy needs mainly through electricity, LPG and natural gas. To the extent individual households use electricity, LPG or other alternative sources of energy, natural gas consumption by individual household customers could diminish, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Excess supply of energy and related products could negatively impact the results of the Company's termoeléctrica de Mexicali power plant.

Several of the wholesale markets supplied by merchant power plants have experienced significant pricing declines due to excess supply of energy and related products. If the Company is unable to sell Termoeléctrica de Mexicali power plant, its inability to sufficiently sell its output through long-term agreements or at future higher prices and any need to recognize losses with respect to the capital already invested in the project as a result of significant changes to the market or regulatory conditions, among other factors, could have a material adverse effect on the Company's results of operations. The Company may manage risks at Termoeléctrica de Mexicali by optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions. However, the Company cannot provide assurance regarding the implementation of these risk management measures or how successful such implementation may be, and entering into long-term contracts in oversupplied markets could be difficult. Although the Company's board of directors, in February 2016, approved a plan to market and sell the Company's Termoeléctrica de Mexicali power plant, if the Company is unable to successfully complete this sale, the Company would remain subject to the risks described above.

Severe weather conditions, natural disasters, catastrophic accidents, major equipment failures or acts of terrorism could have a material adverse effect on the Company's businesses, financial condition, results of operations, cash flows and/or prospects.

Like other major industrial facilities, ours may be damaged by severe weather conditions, natural disasters such as earthquakes, tsunamis and fires, catastrophic accidents, major equipment failures or acts of terrorism. Because the Company is in the business of using, storing, transporting and disposing of highly flammable and explosive materials and operating highly energized equipment, the risks such incidents may pose to the Company's facilities and infrastructure, as well the risks to the surrounding communities, are substantially greater than the risks such incidents may pose to a typical business. The facilities and infrastructure that the Company own and in which it has interests (or which in the future the Company may own or have an interest in) that may be subject to such incidents include, but are not limited to:

- Natural gas, LPG and ethane pipelines, storage and compression facilities;
- LNG and refined product terminals and storage;
- Electric transmission infrastructure; and
- Power generation facilities.

Such incidents could result in severe business disruptions, property damage, injuries or loss of life, significant decreases in revenues and earnings, and/or significant additional costs to us. Any such incident could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Depending on the nature and location of the facilities and infrastructure affected, any such incident also could cause catastrophic fires; release of natural gas odorant; natural gas, LPG, ethane or refined products leaks; explosions, spills or other significant damage to natural resources or property belonging to third parties; personal injuries, health impacts or fatalities; or present a nuisance to impacted communities. Any of these consequences could lead to significant claims against us. In some cases, the Company may be liable for damages even though the Company is not at fault, and in cases where the concept of inverse condemnation, strict liability or similar legal concepts (such as *responsabilidad objetiva*) apply, the Company may be liable for damages without being found to be at fault or to have been negligent. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds the Company receives may be insufficient to cover the Company's losses or liabilities due to the existence of limitations, exclusions, high deductibles, failure to comply with procedural requirements, and other factors, which could have material adverse effect on the Company's businesses, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Severe weather conditions may also impact the Company's businesses. Significant rainstorms and associated high winds, such as those caused by a strong El Niño weather pattern, could damage the Company's electric, natural gas, LPG o refined products infrastructure, resulting in increased expenses, including higher maintenance and repair costs, and interruptions in electricity and natural gas delivery services. As a result, these events can have significant financial consequences, including regulatory penalties and disallowances if the Company's utilities encounter difficulties in restoring service to their customers on a timely basis. Further, the cost of storm restoration efforts may not be fully recoverable through the regulatory process. Any such events could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Risks Relating to Mexico

Adverse economic and political conditions in Mexico may materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Substantially all of the Company's operations are conducted in Mexico and the Company's potential for growth is centered in Mexico; the Company's business is therefore significantly dependent upon the performance of the Mexican economy. Mexico has experienced economic crises in the past, caused by internal and external factors, characterized by, among other things, exchange rate instability (including large devaluations), high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. As a result, such conditions, as well as the general condition of the Mexican economy, over which the Company has no control, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert Mexican pesos into U.S. Dollars (except for certain restrictions related to cash transactions involving a U.S. Dollar payment to a Mexican bank) or other currencies and Mexico has not had a fixed exchange rate policy since 1982. The Mexican peso has been subject to significant devaluations against the U.S. Dollar in the past and may be subject to significant fluctuations in the future. Severe devaluations or depreciations of the Mexican peso may result in governmental intervention to institute restrictive exchange control policies, as has occurred before in Mexico and other Latin American countries. Accordingly, fluctuations in the value of the Mexican peso against other currencies, particularly the U.S. Dollar, may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

After being significantly impacted by the global economic crisis that began in 2008, Mexico's gross domestic product, or GDP, fell 6.1% in 2009, the sharpest decline since 1932, according to the World Bank. Mexico's GDP grew by 2.0%, 2.3% and 2.6%, respectively, in 2017, 2016 and 2015. However, if the Mexican economy experiences another recession, if inflation or interest rates increase significantly, if Mexico's sovereign debt credit rating is downgraded or if the Mexican economy is otherwise adversely impacted, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

New and unanticipated tax reforms may be approved

Mexican tax legislation is frequently amended, and therefore there is no guarantee that the current legal framework will not be amended in a way that might adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The main effects of the tax reforms in 2016 are as follows:

i. The return of accelerated depreciation for Investments in fixed assets made during September to December of 2015, 2016 and 2017 by companies engaged in the construction and extension of transportation infrastructure, such as roads, highways and bridges, as well as equipment for production, transportation, distribution and supply of energy.

ii. Companies engaged in electricity generation infrastructure will not be subject to thin capitalization rules. In this regard, companies engaged in electricity generation infrastructure will be able to deduct for Mexican income tax purposes all interest paid to foreign related parties, even if their debt to equity ratio exceeds the maximum established in the Mexican Income Tax Law (Ley del Impuesto Sobre la Renta), provided that all additional shareholder requirements for authorized deductions are fulfilled.

iii. Companies that reinvest profits generated from 2014 to 2016 will be able to apply a credit against the income tax withholding at the 10% rate applicable to dividend distributions to Mexican resident individual shareholders. The amount of the credit will depend on the year in which the distribution is carried out, and will be 1% on the dividend distribution if paid during 2017, 2% if paid during 2018, and 5% if paid during 2019 and subsequent years.

iv. A new account similar to the net tax profits account, known as CUFIN (cuenta de utilidad fiscal neta), will be created for companies engaged in energy generation through renewable sources or through efficient electricity cogeneration systems. These companies, which currently are entitled to a 100% depreciation rate of investments in machinery or equipment, as a consequence may not generate CUFIN during investment periods. The creation of this new account would allow such companies to distribute profits via dividends without further taxation at the corporate level. The Company cannot guarantee that the current political situation or future events in Mexico will not have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The introduction of class action lawsuits into the Mexican legal system could have an adverse effect on the Company's operations.

In 2011 Mexico adopted a new legal system that allows for the commencement of class action lawsuits on matters relating to the consumption of goods and services and the environment. This could give rise to the commencement of class action lawsuits against the Company by its customers or other market participants. Because the relevant laws have not yet been the subject of extensive judicial interpretation or enforcement, the Company cannot predict the outcome of any class action lawsuit brought against the Company under such laws, including the extent to which the Company may be found liable and the effect thereof on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Regulation, Permits and Environmental Matters - Legal Framework; Taxation - Constitutional Amendment on Class Actions."

Changes in the relative value of the Mexican peso to the U.S. Dollar may have a material adverse effect on the Company.

The Mexican peso-U.S. Dollar exchange rate is important for the Company because of its effect on the Company's business, financial condition, results of operations, cash flows and prospects. In general, as described below, a depreciation of the peso will likely result in an increase in the Company's operating margins and an appreciation of the peso will likely result in a decrease in the Company's operating margins. This is because the aggregate amount of the Company's net sales denominated in or linked to U.S. Dollars exceeds the aggregate amount of the Company's cost of sales and other selling, general and administrative expenses denominated in or linked to U.S. Dollars. In addition, a depreciation of the Mexican peso will likely affect the value of U.S. Dollar receivables and payables and peso-denominated deferred income tax assets and liabilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Effects of Currency Exchange Rates on Income Tax Expense."

The majority of the Company's net sales are either denominated in, or linked to the value of, the U.S. Dollar. However, a portion of the Company's cost of goods sold, including labor costs and other selling, general and administrative expenses are invoiced in pesos and the Company's Mexican taxes will also be paid in pesos, as may be debt obligations the Company incurs in the future. Consequently, the real appreciation or depreciation of the peso relative to the U.S. Dollar can have an effect on the Company's operating margins and the Company's income tax expense. The decision by the U.S. Federal Reserve to increase interest rates on banks' reserves could also impact the Mexican peso to U.S. Dollar exchange rate. Changes in the Mexican peso-U.S. Dollar exchange rate could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

An increase in interest rates in the United States could adversely impact the Mexican economy and may have a negative effect on the Company's financial condition or performance.

A decision by the U.S. Federal Reserve to increase interest rates on banks' reserves may lead to a general increase in interest rates in the United States. This, in turn, may redirect the flow of capital away from emerging markets and into the United States, because investors may be able to obtain greater risk-adjusted returns in larger or more developed economies rather than in Mexico. Thus, companies in emerging market economies such as Mexico could find it more difficult and expensive to borrow capital and refinance existing debt. This may negatively affect the Company's potential for economic growth and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its Shares.

The increase in violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy and may have a negative effect on the Company's financial condition or performance.

Over the past few years Mexico has experienced a significant increase in violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border, and most of the Company's facilities are located in this region. This increase in violence has had an adverse impact on the economic activity in Mexico. Also, social instability in Mexico and adverse social or political developments in or affecting Mexico could have a material adverse effect on the Company's business, financial conditions, results of operations, cash flows, prospects, and/or the market price of its securities.

Events and the perception of risk in other countries, especially the United States, China and other emerging market countries, may materially adversely affect the market price of Mexican securities, including those issued by us.

The market price of securities issued by Mexican companies is affected to varying degrees by economic and market conditions in other countries, including the United States, China and other Latin American and emerging market countries. Therefore, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Mexican issuers. Crises in the United States or other emerging market countries may reduce investor interest in securities issued by Mexican companies, including those issued by us.

In the past, the development of adverse economic conditions in other emerging market countries resulted, in general, in capital flight, and as a consequence, in a decrease in the value of foreign investments in Mexico. The financial crisis that originated in the United States during the third trimester of 2008 triggered a recession of global scale. This adversely affected the Mexican economy and Mexican capital markets, both directly and indirectly, and led to, among other things, fluctuations in the trading prices of securities issued by publicly-owned companies, scarcity of credit, cuts in expenditures, slowdown in the global economy, exchange rate volatility, and inflationary pressures. Recent turmoil in other large economies, such as those in Europe and China, could also have such effect. Any of these factors, if they were to occur again, could negatively affect the market value of the Company's securities and make it more difficult for it to access capital markets and finance its operations in the future on acceptable terms, or at all, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Further, the Mexican economy is affected by international economic and market conditions generally, and especially by economic and market conditions in the United States. For example, share prices on the Mexican Stock Exchange have traditionally been sensitive to fluctuations in U.S. interest rates and activity on the major U.S. securities exchanges.

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of NAFTA and increased economic activity between the two countries. Adverse economic conditions in the United States, the termination or re-negotiation of NAFTA or other related events could have a significant adverse effect on the Mexican economy. The Company cannot assure you that events in other emerging market countries, in the United States or elsewhere will not materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company could be materially adversely affected by violations of the Mexican Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The Mexican Federal Anticorruption Law in Public Contracting (*Ley Federal Anticorrupción en Contrataciones Públicas*), the U.S. Foreign Corrupt Practices Act, or FCPA, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business or any business advantage. Many of the Company's operations require it to use third parties to conduct business or to interact with people who are deemed to be governmental officials under the FCPA. Thus, the Company faces the risk of receipt of unauthorized payments, offers of payments or other things of value by the Company's employees, contractors or agents. It is the Company's policy to implement compliance procedures to prohibit these practices. However, there can be no assurance that the Company's internal control policies and procedures will protect it from unlawful acts committed by its employees, contractors, associated persons or agents, regardless of whether such conduct occurs within or outside the United States. Violations of these laws, or allegations of such violations, could damage the Company's reputation, be expensive to defend, disrupt the Company's business and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Risks Relating to the Company's Shares and Other Securities Issued by it

The market price of the Company's shares and other securities issued by it may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of the shares and other securities issued by the Company may prevent you from being able to sell your shares or other securities at or above the price you paid for such shares or other securities. The market price and liquidity of the market for the Company's securities may be significantly affected by numerous factors, some of which are beyond its control and may not be directly related to its operating performance. These factors include, among others:

- Significant volatility in the market price and trading volume of securities of companies in the Company's sector, which are not necessarily related to the operating performance of these companies;
- The depreciation of the peso against the Dollar can negatively impact the price of the Company's shares in Dollar terms;
- Risks related to the global economy and the economies of the United States and Mexico;
- Investors' perceptions of the Company's prospects and the prospects of its sector;
- Potential differences between the Company's actual financial and operating results and those expected by investors;
- Changes in earnings or variations in operating results;
- Operating performance of companies comparable to the Company;
- Actions by the Company's indirect controlling shareholder with respect to the disposition of the shares it beneficially owns or the perception that such actions might occur;
- Additions or departures of key management personnel;
- Announcements by the Company or its competitors of significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments;
- New laws or regulations or new interpretations of laws and regulations, including tax guidelines, applicable to the Company's businesses or its securities;
- General economic trends in the Mexican, United States or global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events;
- Political conditions or events in Mexico, the United States and other countries;
- Changes in the credit ratings or perspective assigned to Mexico or the Company's customers; and
- Interest rates increase in Mexico and the United States.

Although the Company has no present intention to do so, in the future the Company may issue additional equity securities. Any such issuances or the prospect of any such issuances could result in a dilution of shareholders' economic and voting rights in the Company or a negative market perception and potentially a material decrease in the market price of its shares. In addition, the Company's indirect controlling shareholder may dispose in whole or in part of its interest in us, which could result in a negative perception and potentially a material decline in the market price of its shares.

The Company is a holding company and depends on the results of operations of its subsidiaries and joint ventures.

The Company is a holding company with no independent operations or substantial assets other than the capital stock of its operating companies and joint ventures. Accordingly, it depends on the results of operations of its subsidiary companies and joint ventures. Each of its subsidiaries and joint ventures is a distinct legal entity, and under certain circumstances, legal and contractual restrictions may limit the Company's ability to obtain cash from its subsidiaries and joint ventures. In addition, under Mexican law, Mexican subsidiaries may only pay dividends (1) out of retained earnings included in financial statements that have been approved by their respective partners during a partners' meeting, (2) after all losses from prior fiscal years have been satisfied, and (3) if the corresponding entity has allocated 5% of its net income for such fiscal year to its legal reserve, which allocation must be made on an annual basis until its legal reserve represents at least 20% of such entity's paid in capital. Any adverse change in the financial condition or results of operations of the Company's subsidiaries or joint ventures could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The volatility and the lack of liquidity of the Mexican securities market may significantly limit the ability of investors to sell their shares for the desired price at the desired time.

Investing in Mexican securities, such as the Company's shares, involves a higher degree of risk than investing in securities of issuers from countries with more stable political and economic environments and such investments are generally considered speculative in nature. These investments are subject to certain economic and political risks, such as, among others: (1) changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, with respect to their investments, and (2) restrictions on foreign investment and on repatriation of invested capital. The Company cannot assure you that the liquidity of its shares will significantly increase, which could affect the ability of the purchasers of the shares to sell them at the price and time expected.

An active and liquid market for the Company's shares may not continue, which could limit your ability to sell your shares at the desired price and time.

The Mexican securities market is substantially smaller, less liquid, more volatile and more concentrated than the major international securities markets. The relative volatility and iliquidity of the Mexican securities markets may substantially limit your ability to sell your shares at the time and price you desire. In addition, the Mexican Stock Exchange operates a system which suspends trading in shares of a particular issuer when fluctuations in the price of such shares (expressed as percentage of that day's opening price) exceed certain levels. As a result of these factors, you may not be able to sell your shares at the time or price you desire or at all.

Future issuances of shares, or the possibility or perception of such future issuances, may materially affect the market price of the Company's shares.

In the future, the Company may issue additional shares in connection with acquisitions, investments or repayment of its debt or for other purposes. The number of such shares issued could constitute a material portion of the Company's then outstanding share capital. The Company cannot predict what effect, if any, future sales of additional shares, or the availability of additional shares for future sale, will have on the market price of the Company's shares. Sales of substantial amounts of additional shares in the public market, or the perception that sales of this type could occur, could depress the market price of the Company's shares and may make it more difficult for you to sell shares at a time and price that you deem appropriate. Any such issuances could also result in a dilution of shareholders' economic and voting rights in the Company or a negative market perception and potentially in a lower market price of its shares.

Future offerings of debt or preferred securities may limit the Company's operating and financial flexibility and may materially adversely affect the market price of, and dilute the value of, its shares.

If the Company decides to issue debt or preferred securities in the future or otherwise incur indebtedness, it is possible that these debt or preferred securities or indebtedness will be governed by an indenture or other instrument containing covenants restricting the Company's operating flexibility and limiting its ability to make distributions to holders of its shares. Additionally, any convertible or exchangeable securities that the Company issues in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of the Company's shares and may result in dilution to holders of its shares. Because the Company's decision to issue securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond its control, the Company cannot predict or estimate the amount, timing or nature of future offerings or financings, any of which could materially reduce the market price of the Company's shares and dilute the value of its shares.

The interests of Sempra Energy, the Company's indirect controlling shareholder, could conflict with yours.

The Company's indirect controlling shareholder, Sempra Energy, has guaranteed the obligations of IEnova Marketing to the LNG terminal and to the Company's pipelines business, has entered into a loan agreement with the Company, and provides it with various goods and services pursuant to other agreements. For a description of material contractual relationships between Sempra Energy and the Company, see "Related Party Transactions and Conflicts of Interest." By virtue of its ownership of the Company's shares, Sempra Energy has and will continue to have the ability to determine the outcome of substantially all matters submitted for a vote to the Company's shareholders and thus exercise control over the Company's business policies and affairs, including the following:

- The composition of the board of directors and, consequently, any determinations of it with respect to the Company's business direction and policy, including the appointment and removal of the Company's officers;
- Determinations with respect to mergers, other business combinations and other transactions, including those that may result in a change of control;
- Whether dividends are paid or other distributions are made and the amount of any such dividends or distributions;
- Sales and dispositions of the Company's assets; and
- The amount of incurred debt financing.

Sempra Energy may direct the Company to take actions or not take actions that could be contrary to your interests and under certain circumstances may be able to prevent other shareholders, including you, from blocking these actions or from causing different actions to be taken. Also, Sempra Energy may prevent change of control transactions that might otherwise provide you with an opportunity to dispose of or realize a premium on your investment in the Company's shares.

The Company cannot assure you that Sempra Energy will act in a manner consistent with your best interests. In addition, actions by Sempra Energy with respect to the disposition of shares that it indirectly controls, or the perception that such action might occur, may negatively affect the trading prices of the Company's shares.

The Company is part of a corporate group, and it enters into transactions with related parties and affiliates, which could result in conflicts of interest.

The Company has entered into and intends to continue to enter into transactions with several entities directly or indirectly owned or controlled by Sempra Energy, the Company's indirect controlling shareholder. Mexican law applicable to public companies and the Company's bylaws provide for several procedures designed to ensure that the transactions entered into with or among the Company's subsidiaries and its parent company do not deviate materially from prevailing market conditions for those types of transactions, including requiring the approval of the Company's board of directors for some of these transactions. The Company is likely to continue to engage in transactions with its indirect controlling shareholder, subsidiaries and affiliates, and among its subsidiaries and affiliates, and no assurance can be given that the terms that the Company or its subsidiaries consider to be "substantially on market conditions" will be considered as such by third parties. In addition, future conflicts of interest between the Company and its indirect controlling shareholder or any of its subsidiaries or affiliates, and among its subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in the favor of the Company. See "Related Party Transactions and Conflicts of Interest."

There can be no assurance that the Company will be able to pay or maintain cash dividends.

The amount available for cash dividends, if any, will be affected by many factors, including the Company's future operating results, financial condition and capital requirements, and the terms and conditions of legal and contractual restrictions, such as the terms of debt instruments applicable to us, the Company's subsidiaries and joint ventures, among other variables. Also, the amount of cash available for dividend payments may vary significantly from estimates. The Company can offer no assurance that the Company will be able to pay or maintain the payment of dividends. The Company's actual results may differ significantly from the assumptions made by the Company's board of directors in recommending dividends to shareholders or in adopting or amending a dividend policy in the future. Also, there can be no assurance that the Company's board of directors will recommend a dividend payment to the Company's shareholders or, if recommended, that the Company's shareholders will approve such a dividend payment. Sempra Energy, as the Company's indirect controlling shareholder, has the ability to establish and modify any dividend policy as well as to determine the payment of dividends, if any. The payment of dividends and the amounts of dividend payments paid by the Company to the Company's shareholders are subject to the approval of the Company's shareholders. As long as the Company's indirect controlling shareholder continues to own the majority of the Company's shares, it will have the ability to determine whether dividends are paid and the amount of such dividends.

Dividend distributions to holders of the Company's shares may be made in Mexican pesos.

The Company may make dividend distributions to holders of the Company's shares in Mexican pesos. Any significant fluctuations in the exchange rates between Mexican pesos to U.S. Dollars or other currencies could have an adverse impact on the U.S. Dollar or other currency equivalent amounts holders of the Company's shares receive from the conversion. In addition, the amount paid by the Company in Mexican pesos may not be readily convertible into U.S. Dollars or other currencies. While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. Dollars or other currencies, the Mexican federal government could institute restrictive exchange control policies in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican government on the Mexican economy cannot be predicted.

The protections afforded to minority shareholders in Mexico are different, and may be more difficult to enforce, than those in the United States and other countries.

The protections afforded to minority shareholders in Mexico are different from, and may be weaker than, those in other jurisdictions, including the United States. Although Mexican law permits any shareholder owning 5% of the Company's outstanding common shares to file a shareholder derivative suit against corporate action upon meeting certain procedural requirements and provides specific duties of care and loyalty applicable to the Company's directors and to the Company's principal officers, the substantive law concerning fiduciary duties of directors has not been the subject of extensive judicial interpretation in Mexico.

In addition, there are no procedures for shareholder class action lawsuits in Mexico as they are conducted in the United States, and there are different procedural requirements for bringing lawsuits against directors. In Mexico, only shareholder derivative actions, as opposed to direct actions, may be initiated for breach of fiduciary duties. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, the Company's directors or the Company's indirect controlling shareholder than it would be for minority shareholders of a United States company. Mexican regulations provide remedies that may differ from those contemplated under the securities laws in other jurisdictions including the United States. Therefore, shareholders may not be able to file the types of legal actions or seek to enforce the rights or remedies that they would normally pursue under the securities laws in other jurisdictions, including the United States.

Preemptive rights may be unavailable to non-Mexican shareholders.

Under Mexican law, whenever the Company issues new shares of capital stock for cash, the Company generally must grant preemptive rights to the Company's shareholders, giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage, except for: (1) shares issued by the Company in connection with mergers, (2) shares issued in connection with the conversion of convertible securities *(obligaciones convertibles)* whose underlying shares have already been approved and are held in the Company's treasury, (3) shares issued in connection with the capitalization of shareholders' equity accounts, (4) repurchased shares held in the Company's treasury to be resold through the stock market, and (5) shares to be placed in a public offering pursuant to the Mexican Securities Market Law. The Company may not be able to offer shares to non-Mexican shareholders pursuant to preemptive rights granted to the Company's shareholders in connection with any future issuance of shares unless a registration statement under the Securities Act is effective or a similar procedure is followed with respect to such rights and shares or an exemption from the registration requirements of the Securities Act or a similar exception is available.

The Company intends to evaluate at the time of any rights offering the costs and potential liabilities associated with a registration statement to enable U.S. shareholders to exercise their preemptive rights, the direct and indirect benefits of enabling U.S. shareholders to exercise preemptive rights and any other factors that the Company considers appropriate at such time. The Company will then decide whether to file such a registration statement. The Company is not required to file any such registration statement and such registration statement may not in fact be filed. As a result, U.S. shareholders may not be able to exercise their preemptive rights in connection with future issuances of the Company's shares of capital stock. In this event, the economic and voting interest of U.S. shareholders in the Company's total equity may decrease and U.S. shareholders would suffer dilution with respect to their holdings of the Company's shares.

Corporate disclosure in Mexico may differ from disclosure regularly published by or about issuers of securities in other countries, including the United States.

A principal objective of the securities laws of the United States, Mexico, and other countries is to promote full and fair disclosure of all material corporate information, including accounting information. However, there may be different or less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in other countries, including the United States.

The Company's bylaws contain provisions that require approval of the Company's board of directors for an acquisition of a significant stake in the Company's capital stock.

Certain provisions in the Company's bylaws could make it difficult for a third party to acquire a significant ownership percentage of the Company's shares without creating an obligation to purchase all or part of the Company's shares. These bylaw provisions could discourage certain types of transactions involving the acquisition of the Company's shares. Also, these provisions could discourage transactions in which the Company's shareholders would receive a premium on current market value for their shares. For example, subject to certain exceptions, any person who seeks to acquire beneficial ownership of 10% or more of the Company's outstanding capital stock will need to obtain the prior written approval of the Company's board of directors. If the approval of the Company's board of directors is required under its bylaws for any share acquisition or voting agreement, and such acquisition or voting agreement is undertaken without such approval, the voting rights with respect to such shares may be null and void, and a person who acquires shares in violation of these provisions would be required to sell them within 90 days of such acquisition. The Company's board of directors may consider certain factors set forth in the Company's bylaws, as well as any prior approvals of governmental authorities required for such acquisition, including antitrust or other regulatory approvals (such as any prior approval of the U.S. Federal Energy Regulatory Commission required for such proposed purchase). See "Description of the Company's capital Stock and Bylaws-Anti-Takeover Protections" and "Regulatory, Permits and Environmental Matters- Laws Applicable to Electricity Generation."

Moreover, even if an acquisition of more than 20% but less than 40% of the Company's shares is approved by its board of directors, the acquirer must make a cash tender offer for the greater of (1) the percentage of the Company's outstanding capital stock that it is expected to acquire, or (2) 10% of the Company's outstanding capital stock, provided that such acquisition would not exceed 50% of the Company's common stock, or result in a change of control. In the event that the Company's board of directors authorizes an acquisition of a 40% participation or that results in a change of control, regardless of the authorization, the acquirer must make a cash tender offer for 100% of the Company's outstanding capital stock, and all shareholders must be paid the same price for shares tendered during the offer.

The restrictions on a potential acquisition of shares provided for in the Company's bylaws could discourage possible future acquisitions of the Company's shares, and consequently, have a negative effect on the liquidity and trading price of the Company's shares.

The Company's bylaws contain provisions designed to discourage transactions involving a change of control that could otherwise be beneficial to us.

Certain provisions in the Company's bylaws could make it difficult for a third party to acquire a significant ownership percentage of the Company's shares without creating an obligation to purchase all or part of the Company's shares. These bylaw provisions could discourage certain types of transactions involving the acquisition of the Company's shares. Also, these provisions could discourage transactions in which the Company's shareholders would receive a premium on current market value for their shares. If a person undertakes a share acquisition in violation of the anti-takeover provisions contained in the Company's bylaws, such person will not be able to exercise the corporate rights otherwise conferred by the relevant shares, including, specifically, any voting rights with respect to such shares. Furthermore, a person who acquired shares in violation of these provisions would be required to sell them in a single transaction or a series of transactions through the Mexican Stock Exchange within 90 days of such acquisition, without prejudice of the economic rights accruing in favor of such person as a result of the ownership of such shares pending their sale. The Company's board of directors may consider certain factors set forth in the Company's bylaws, as well as any prior approvals of governmental authorities required for such acquisition, including antitrust or other regulatory approvals. See "Description of the Company's capital Stock and Bylaws - Anti-Takeover Protections" and "Regulation, Permits and Environmental Matters."

The Company's bylaws, in compliance with Mexican law, restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.

As required by Mexican law, the Company's bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to the Company's property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between the Company and the Mexican government. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but is not deemed to have waived any other rights it may have with respect to its investment in us. If you invoke such governmental protection in violation of this agreement, your shares may be forfeited to the Mexican government.

Risks Relating to Forward-looking Statements

This report contains estimates and forward-looking statements. These statements relate to the Company's business, financial condition, results of operations, cash flows and prospects. The Company's estimates and forward-looking statements are based primarily on its current expectations and estimates of future events and trends. Although the Company believes that these estimates and forward-looking statements are based on reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information available to the Company as of the date of this report.

The Company's estimates and forward-looking statements may be affected by, among others, the following factors:

- Local, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- Actions and the timing of actions by regulatory, governmental and environmental bodies in Mexico and other countries, including actions relating to the reform of the Mexican energy sector;
- Energy markets, including the timing and extent of changes and volatility in commodity prices;
- Services and financing provided to the Company by affiliates;
- The resolution of litigation and property disputes;
- The loss of significant suppliers or customers;
- The Company's ability to hire, train and retain qualified employees and executives;
- The timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;
- The Company's ability to successfully compete with its peers for the award of energy infrastructure projects;
- The availability of electric power, natural gas, LNG, LPG and refined products including disruptions caused by explosions and equipment failures;
- Wars, terrorist attacks, local crime, weather conditions, natural disasters, catastrophic accidents and conservation efforts;
- Inflation, interest and exchange rates;
- Business, regulatory, environmental and legal decisions and requirements;
- The inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity supply agreements, including those denominated in or indexed to the U.S. Dollar;
- Increased competition due to expected expansion of the natural gas sector in Mexico;
- Reliance on transportation assets and services that the Company does not own or control to deliver natural gas;
- Risks posed by working with volatile and hazardous materials;
- Risks posed by attacks on the Company's information systems and integrity of its energy grid;
- Temporary or permanent disruption of operations at the Company's existing pipelines and/or storage facilities due to acts of God, *force majeure* or other events outside of the Company's control;
- Government expropriation of assets and title and other property disputes;
- Capital markets conditions, including the availability of credit and the liquidity of the Company's investments;
- Risks relating to the inability or unwillingness of the Company's counterparties to satisfy their contractual obligations to the Company;
- Risks relating to the decisions and actions of the Company's joint venture partners; and
- Other risks and uncertainties discussed under "Risk Factors" and elsewhere in this report.

The words "believe," "expect," "anticipate," "plan," "estimate," "project," "foresee," "intend," "propose," "should," "could," "may," "will," "objective," "goal," and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date of this report. The Company's future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements contained in this report might not occur and the Company's future results and performance may differ materially from those expressed in these forward-looking statements. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

OTHER SECURITIES

The Company established a five-year program for the issuance of Notes in an aggregate principal amount of up to Ps.12.8 billion or its equivalent in Mexican UDIs, which was approved by the Mexican Banking and Securities Commission for registration with the Mexican Securities Registry maintained by it, under registration No. 3420-4.15-2013-001, effective February 11, 2013. This program expired on February 11, 2018.

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013, which is the date of execution of the foreign currency swaps discussed below) under this program: A series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion (USD$306 million), and a series of floating-rate Notes in the principal amount of Ps.1.3 billion (USD$102 million) that accrue interest at the TIIE rate plus 30 basis points. The Company used the net proceeds from the sale of the Notes, or approximately USD$408 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and to fund the Company's expansion plans. On February 12, 2013, the Company entered into certain swap agreements to hedge its exposure to changes in interest rates and to the Company's Mexican peso-denominated obligations under the Notes. These included a swap agreement pursuant to which the Company replaced the floating, Mexican-peso denominated interest rate on the five-year Notes due in 2018, with a fixed, U.S. Dollar-denominated rate, and a swap agreement pursuant to which the Company replaced the fixed, Mexican peso-denominated interest rate on the Company's 10-year Notes due in 2023, with a fixed, U.S. Dollar-denominated rate. See "Financial Condition, Liquidity and Capital Resources – Debt, Historical" and "Financial Condition, Liquidity and Capital Resources – Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk Management."

On December 14, 2017, the Company issued USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048 (collectively, the "Senior Notes"). The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes. The Senior Notes were offered and sold in a private placement to qualified institutional buyers in the United States pursuant to Rule 144A and outside the United States pursuant to Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"). The Company did not register the Senior Notes in Mexico or the United States. The Senior Notes were registered in the Singapore Exchange Securities Trading Limited.

As a result of the above, the Company is subject to the disclosure and reporting requirements imposed by the Mexican Banking and Securities Commission's Rules for Securities Issuers (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores*) and the Internal Regulations of the Mexican Stock Exchange. Except as described above, the Company is not subject to any disclosure requirements imposed by other regulatory authorities or securities markets.

Since 2013, the Company has complied as and when due with all of the quarterly and annual reporting obligations under the Rules for Securities Issuers and the Internal Regulations of the Mexican Stock Exchange.

MATERIAL CHANGES IN THE TERMS OF THE COMPANY'S REGISTERED SECURITIES

As of the date of this Annual Report, the Company has not made any change in the terms of the securities the Company has registered with the Mexican Securities Registry and maintained by the Mexican Banking and Securities Commission.

USE OF PROCEEDS

Proceeds from the various public offers carried out by the Company have been, as of the date of this Report, fully applied in accordance with the destination indicated in the prospectus of placement and / or corresponding information supplements.

PUBLIC DOCUMENTS

The Company has complied as and when due with all of the quarterly and annual reporting obligations under the Mexican Securities Market Law (*Ley del Mercado de Valores*), the Rules for Securities Issuers and the Internal Regulations of the Mexican Stock Exchange, and with the reporting obligations under the Company's agreements with the rating agencies. Such information is available for consultation by the public by contacting the Company's investor relations department at:

IEnova, S.A.B. de C.V.
Investor Relations
Paseo de la Reforma No. 342, Piso 24
Colonia Juárez
06600 Ciudad de México
Tel: +52 (55) 9138-0100
E-mail: ienovainvestorrelations@ienova.com.mx

Such information is available for consultation by the public at the Company's website www.ienova.com.mx

THE ISSUER

a) The Company's History and Evolution

The Company was organized on April 2, 1996, under the name Enova de México, S.A. de C.V., pursuant to public instrument No. 1,352, attested to by Pedro Cortina Latapí in his capacity as notary public No. 226 for Mexico City, and became registered with the Public Registry of Commerce (*Registro Público de Comercio*) for Mexico City under file No. 209,466, on April 15, 1996. The Company was organized for an original term of 99 years. On April 25, 2008, the Company adopted the form of a limited partnership (*sociedad de responsabilidad limitada*) under the Mexican Corporations Law (*Ley General de Sociedades Mercantiles*) and changed the Company's name to Sempra Energy México, S. de R.L. de C.V. On December 3, 2008, the Company changed its name to Sempra México, S. de R.L. de C.V.

Effective February 20, 2013, the Company adopted the form of a limited liability, variable stock corporation (*sociedad anónima de capital variable*) based on a resolution adopted by the Company's shareholders at an extraordinary shareholders' meeting held February 15, 2013. On March 1, 2013, based on a resolution adopted by the Company's shareholders at an extraordinary shareholders' meeting, the Company changed its name to Infraestructura Energética Nova, S.A. de C.V. and began operating under the trade name "IEnova." This change in name was reflective of Sempra Energy's strategy of creating a separate and distinct entity under which to integrate and consolidate all of its Mexican assets.

On March 6, 2013, the Company's shareholders approved by unanimous consent, in lieu of a shareholders' meeting: (i) the registration of the Company's shares with the Mexican National Securities Registry; (ii) the Company's transformation into a publicly-traded, limited liability variable stock corporation (*sociedad anónima bursátil*) and the Company's change of name to Infraestructura Energética Nova, S.A.B. de C.V. by the amendment of Article One of the Company's corporate bylaws; and (iii) a global offering of the Company's shares.

The Company's corporate headquarters are located at Paseo de la Reforma 342, Piso 24, Colonia Juárez, 06600 Mexico City. The Company's telephone number at this address is +52 (55) 9138-0100.

Recent Developments

The Company executed two long-term contracts related to the Baja Refinados marine terminal for the receive, storage and deliver of refined products in Baja California. In April 2018, the Company announced a project to develop, construct and operate a marine terminal that will receive, store and deliver hydrocarbons, primarily gasoline and diesel, within the La Jovita Energy Center, which is located 23 km north of Ensenada, B.C., Mexico. In connection with this terminal, the Company executed two long-term contracts, one with Chevron Combustibles de Mexico, S. de R.L. de C.V. (“Chevron”) and the other with another global oil company for the storage and delivery of hydrocarbons. Together, these two contracts represent 100% of the initial total terminal storage capacity (which is approximately 1,000,000 barrels). Currently, an affiliate of Chevron has the option to acquire 20% of the equity of the terminal after commercial operations begin. With an investment of approximately USD$130 million, the terminal is expected to begin commercial operations in the second half of 2020.

Execution of long-term electric supply contract with Liverpool. In February 2018, the Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new $125MW_{AC}$ solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019 and have an estimated investment of USD$130 million.

Execution of a standby letter of credit facility agreement. In January 2018, the Company announced the execution of a standby letter of credit facility and reimbursement agreement, up to an amount equivalent to USD$1.0 billion, in order to make more efficient and standardize the process for the issuance of standby letters of credit requested by governmental entities or third parties. The bank syndicate is formed by Banco Nacional de Mexico, SMBC, BBVA Bancomer, Scotiabank Inverlat, Mizuho, BNP Paribas and Santander. This agreement has a term of five years. The standby letter of credit facility agreement and the standby letters of credit issued under the same do not constitute the Company's debt.

Material Events

Senior Notes private placement for a total of USD$840 million. In December 2017, the Company successfully completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048. The Senior Notes received an investment grade rating from Fitch (BBB +), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

Execution of a power purchase agreement with San Diego Gas & Electric Company. In November 2017, the Company executed a 20-year power purchase agreement with San Diego Gas & Electric Company. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California. The project will have a capacity of 108 MW and will require an investment of approximately USD$150 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission (obtained in January 2018) and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

Acquisition of Pemex TRI's participation in Ductos y Energéticos del Norte. In November 2017, the Company completed the acquisition of the remaining 50% of the capital stock of Ductos y Energéticos del Norte owned by Pemex TRI. The transaction value is USD$547 million, comprised of (i) the price paid for the assignment of DEN's capital stock and the liquidation of certain shareholder loans of USD$258 million, and (ii) the proportional amount of Los Ramones Norte pipeline project financing of USD$289 million. This debt will not be consolidated on the Company's financial statements. As a result of the acquisition, the Company increased its indirect participation in Los Ramones Norte pipeline from 25% to 50%.

The Company and Valero executed long-term firm capacity contracts related to the marine terminal for the receive, storage and deliver of hydrocarbons in the new port of Veracruz, as well as for two in-land terminals to be constructed in Puebla and Mexico City. In July 2017, the Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the new port of Veracruz, which will be used for the receive, storage and deliver of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 1,400,000 Bbl, and it is expected to commence commercial operations in the second half of 2018. In August 2017, the Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz and another two in-land terminals in Puebla and Mexico City. The estimated investment is USD$155 million for the new marine terminal and USD$120 million for the two in-land terminals. The Company expects that the two in-land terminals commence commercial operations in the first half of 2019.

Execution of the first long-term electric supply contract between a private generator and an industrial client in Mexico. In March 2017, the Company announced that its subsidiary ESJ Renovable II, S. de R.L. de C.V., executed a 20-year electric supply contract with DeAcero to provide them energy, clean energy certificates and capacity from a new solar power plant located in Caborca, Sonora. The Company will develop, construct and operate the 110 MW_{AC} Pima Solar project, which has a total investment of USD$115 million. The estimated commercial operations date is the fourth quarter of 2018.

b) Business description

i) Main activity

The Company is the first private-sector publicly traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its activities in Mexico include several business lines that encompass a significant portion of the Mexican energy infrastructure value chain that is open to private investment.

The Company's assets are divided between two business segments: (1) gas segment, which includes natural gas and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, LNG storage, distribution of natural gas and refined products transportation and storage; and (2) power segment, which includes power generation by Termoeléctrica de Mexicali power plant, a natural-gas-fired, combined-cycle power generation facility that is currently held for sale, wind power generation facilities Energía Sierra Juárez and Ventika, and four solar power generation facilities that are under construction. The Company's assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are presented in the Consolidated Statements of Profit and Loss as discontinued operations; likewise, the assets and liabilities of Termoeléctrica de Mexicali were reclassified to the current in the line of assets held for sale and liabilities related to assets held for sale, in the Consolidated Statements of Financial Position.

As a result of changes to Mexican gas regulation in 1995, the Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990's. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 23 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through new projects development, organic growth, acquisitions and a diversifying its customer base), investing approximately USD$7.6 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

The Company's achievements as pioneers in private investment in Mexican energy infrastructure include the following:

- The Company was the first private company to be awarded a natural gas distribution contract through a public auction following the 1995 reform of the regulatory framework for the Mexican energy sector; the Company owns and operates a natural gas distribution utility, ECOGAS, in three distribution zones: Mexicali since 1996 (serving the city of Mexicali), Chihuahua since 1997 (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna–Durango since 1999 (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango);

- The Company built the first natural gas pipeline in the state of Baja California, and the Company has been the sole developer of open-access natural gas pipelines in Baja California (a region which previously did not have access to U.S. or Mexican natural gas pipeline systems);

- The Company's natural gas pipelines in Baja California allowed the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*) to convert its power generation facilities from fuel oil to natural gas, and the Company is one of the major suppliers of natural gas to the Mexican Federal Electricity Commission in Baja California;

- The Company was partners with state-controlled Pemex TRI in IEnova Pipelines, formerly Gasoductos de Chihuahua, the first natural-gas- infrastructure joint venture in Mexico between PEMEX and private companies, and on September 27, 2016, the company increased its indirect equity interest in IEnova Pipelines, formerly Gasoductos de Chihuahua, from 50% to 100% when the Company acquired the remaining 50% interest from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million;

- The Company built the first LNG terminal on the west coast of North America;

- The Company began developing, through a joint venture with TransCanada, the marine pipeline South of Texas-Tuxpan, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in June 2016. It is expected to commence commercial operations in the fourth quarter of 2018, and the Company is expecting to invest approximately USD$840 million;

- The Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} Pima Solar project. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment in this project is expected to be approximately USD$115 million;

- The Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the new port of Veracruz, which will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 1,400,000 Bbl, and it is expected to commence commercial operations in the second half of 2018;

- The Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Mexico City. The estimated investment is USD$155 million for the new marine terminal and USD$120 million for the two in-land terminals. The Company expects that the two in-land terminals will commence commercial operations in the first half of 2019; and

- The Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new 125MW_{AC} solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019, it has an estimated investment of USD$130 million.

The following map shows the location of the Company's principal assets, which are divided between the gas segment and the power segment:

Gas Segment

Pipelines and Storage Business

- The Company's pipeline business develops and operates systems for receiving, transporting, compressing, storing and delivering natural gas, ethane and LPG throughout the states of Baja California, Chiapas, Chihuahua, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems (including assets under construction or operated through joint ventures) feature:
    - More than 2,900 km of natural gas pipelines (of which approximately 800 km were under construction as of December 2017) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd);
    - Eleven natural gas compression stations in operation, one in commissioning and three currently under construction, with an aggregate of over 588,810 horsepower;
    - 190 km of LPG pipelines with a design capacity of 34,000 Bbld (1.9 MMThd);

- 224 km of ethane pipelines with a transportation capacity of up to 52 MMcfd (0.6 MMThd) in the first segment (as ethane gas); approximately 152 MMcfd (1.8 MMThd) in the second segment (as ethane gas), and approximately 106,000 BBld (1.9 MMThd) in the third segment (as ethane liquid); and
- an LPG storage facility with a total capacity of 80,000 Bbl (4.4 MMTh), near Guadalajara, in the state of Jalisco.

The Company's current pipeline assets include the Rosarito pipelines system, the TGN pipeline, the Aguaprieta pipeline, the Naco compression station, the Sonora pipeline, the Ojinaga–El Encino pipeline, the San Isidro – Samalayuca pipeline, the Empalme Lateral and the South of Texas – Tuxpan pipeline, the joint venture with TransCanada (expected to begin operations in the last quarter of 2018). The company's pipeline assets also include a 100% interest of the assets held by its former joint venture with Pemex TRI, (IEnova pipelines, formerly Gasoductos de Chihuahua) in which the Company held a 50% interest before September 27, 2016. IEnova Pipelines, formerly Gasoductos de Chihuahua, owns the San Fernando pipeline, Samalayuca pipeline, Ethane pipeline, TDF LPG pipeline, Los Ramones I pipeline, Gloria a Dios compression station and Guadalajara LPG terminal and 50% of Los Ramones Norte pipeline.

Liquefied Natural Gas Business

The Company's LNG regasification terminal, located near Ensenada, Baja California, began operations in 2008 and was the first LNG receiving facility on the west coast on North America. The Company's LNG terminal provides receiving and storage facilities for the Company's LNG customers, regasifies their LNG and delivers the resulting natural gas to Gasoducto Rosarito pipeline system with delivery capability in Baja California, Mexico and the United States. LNG business also purchases LNG on its own behalf for storage and regasification in the Company's LNG terminal and sells natural gas to third-party customers. The terminal has a storage capacity of 320,000 cubic meters, or m^3 (73.3 MMTh), in two tanks, each with a capacity of 160,000 m^3 (36.6 MMTh). The terminal is designed to operate at a maximum send-out capacity of 1,300 MMcfd (13.5 MMThd), or a nominal capacity of 1,000 MMcfd (10.4 MMThd).

Refined Products Business

In July 2017, the Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz, for the construction and operation of a new marine terminal in the New Port of Veracruz. It will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel, and it will have a capacity of approximately 1,400,000 Bbl. In August 2017, the Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Mexico City with capacities of approximately 500,000 and 800,000 Bbl, respectively. The estimated investment is USD$155 million for Veracruz and a total of USD $120 million for the two in-land terminals. The Company expects that the marine terminal will commence commercial operations in the second half of 2018 and the two in-land terminals will commence commercial operations in the first half of 2019.

Natural Gas Distribution Business

The Company owns and operates the ECOGAS natural gas distribution utility, which covers three distribution areas: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,852 km in length, this system currently serves over 120,000 industrial, commercial and residential customers.

For the years ended December 31, 2017, 2016 and 2015, the gas segment had revenues of approximately USD $1,065 million, USD$712 million and USD$611 million, respectively, which accounted for 91%, 99% and 100% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$670 million, USD$485 million and USD$367 million, respectively, which accounted for 88%, 96% and 94% of the total adjusted EBITDA for the period ended December 31, 2017, 2016 and 2015. This revenue figure does not include net equity in earnings from the Company's joint ventures, which are accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint ventures in the gas segment adjusted EBITDA.

Power Segment

Natural Gas Fired Power Generation Business

The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with the Rosarito pipeline system, which allows it to receive regasified LNG from the LNG terminal as well as gas supplied from the United States through the North Baja pipeline system. This facility is a modern, efficient combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California, and in February 2013 and 2015, this facility received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency (Procuraduría Federal de Protección al Ambiente). The plant is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator (CAISO) at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California.

In February 2016 the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, beginning in 2016 the after-tax results of Termoeléctrica de Mexicali are included in the consolidated statements of profit under discontinued operations, net of income tax.

Renewable Powered Generation Business

Energía Sierra Juárez is located along mountain ridges in the Sierra de Juárez Mountains in Baja California, Mexico, which is one of the strongest wind resources on the west coast of North America. The initial phase of this project consists of 47 wind turbines (approximately 155 MW) and is located about 70 miles from San Diego, just south of the Mexico—U.S. border, it commenced operations in June 2015. The Company developed the initial phase with a joint venture partner, InterGen. The project interconnects to the East County Substation of the transmission line known as the Southwest Powerlink, owned by an affiliate of San Diego Gas & Electric Company, in eastern San Diego County via a cross-border transmission line. The full amount of electricity from the initial phase is purchased by the U.S. affiliate San Diego Gas & Electric Company under a 20-year power purchase agreement.

In September 2016, the Company participated in the second auction for energy, power and clean energy certificates issued by CENACE in May 2016, with a portfolio of solar energy projects. The Company was awarded two projects, the Rumorosa Solar project and the Tepezalá Solar project, as a result of the bids in this auction. The Company will develop, build and operate the approximately 41 MW_{AC} Rumorosa Solar project near the Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW_{AC} Tepezalá Solar project will be located in Aguascalientes. The Company estimates that the total investment for these projects will be approximately USD$150 million.

In December 2016, the Company acquired 100% of the equity interests of Ventika, which is located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. It is powered by 84 turbines and provides an aggregate of up to 252 MW of generating capacity. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$920 million, including USD$435 million in cash plus existing bank indebtedness of USD$485 million. Ventika started operations in April 2016. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreements.

In January 2017, the Company announced the execution of a 20-year power purchase agreement and two 15-year power purchase agreements with the CFE, for the sale of the energy generated by the 100 MW_{AC} Tepezalá Solar project to be located in the State of Aguascalientes. The agreements include 20 years for the clean energy certificates and 15 years for the capacity. The Tepezalá Solar project will be developed and constructed by the Company in collaboration with Trina Solar (NYSE: TSL), a world leader in solar energy, who will have a 10% interest in the project. The company expects that the Tepezalá Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$100 million.

In January 2017, the Company announced the execution agreements with the CFE, for the sale of the energy products generated by the 41 MW_{AC} Rumorosa Solar project to be located in the State of Baja California near the Energía Sierra Juárez wind farm. The agreements include 20 years for the clean energy certificates and 15 years for the energy. The company expects that the Rumorosa Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$50 million.

In March 2017, the Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} Pima Solar project. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment in this project is expected to be approximately USD$115 million..

For the years ended December 31, 2017, 2016 and 2015, the power segment had revenues of approximately USD$100 million, USD$3 million and USD$0 million, respectively, which accounted for 9%, 0% and 0% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$97 million, USD$19 million and USD$25 million, respectively, which accounted for 13%, 4% and 6% of the total adjusted EBITDA for the period ended December 31, 2017, 2016 and 2015. This revenue figure does not include net equity in earnings from the joint venture, which is accounted for for using the equity method; however, the Company includes the share of the EBITDA from its joint venture in the power segment adjusted EBITDA.

For the years ended December 31, 2016 and 2015, the power segment did not have relevant revenues, due to the reclassification of TDM as discontinued operations and the recognition of 17 days of operations related to Ventika wind farm as of December 31, 2016.

Seasonality

The demand for the products and services of the both gas and power segments is affected by seasonal factors. For the gas segment, the demand for natural gas distribution services increases during the winter as compared with the summer. Conversely, in the power segment the demand for electricity is greater during the summer. See Note 1.3 to the Company's audited financial statements included elsewhere in this report.

Risks Relating to, and Effects of, Climate Changes

See "Risk Factors."

ii) Distribution Channels

See "Natural Gas Distribution Business."

iii) Patents, licenses, trademarks and other contracts

Intellectual Property

The Company and its subsidiaries currently hold several registered trademarks in Mexico, including the name and design logos in several classes of "IEnova", "Ecogas", "Fundación IEnova", "IEnova Gasoductos", "IEnova infraestructura energética una empresa de Sempra Energía para México" and "IEnova Energía para México". Such trademark registrations are current and we expect they will be renewed prior to their expiration in accordance with applicable laws. In Mexico, trademark registrations can generally be renewed indefinitely every ten years as long as they are being used. To the knowledge of the Company, there are no disputes regarding the ownership of its trademarks.

To the extent the Company considers any trademarks owned by its affiliates to be material to its business, it may enter into licenses with its affiliates for their use. The Company has no patents for its business activities.

iv) Principal Customers

The following table includes the Company's revenue per customer. See Note 24.9.1 to the Company's audited financial statements included elsewhere in this report.

(in thousands of U.S. Dollars)		As of December 31,		
	Segment	**2017**	**2016**	**2015**
Customer 1	Gas	317,055	226,496	197,559
Customer 2	Gas	168,937	40,592	—
Customer 3	Gas	114,093	30,040	—
Customer 4	Gas	103,043	101,999	51,683
Customer 5	Gas	87,160	88,646	89,037
Customer 6	Gas	78,940	61,416	—
Customer 7	Gas	36,397	35,838	—
Customer 8	Power	35,389	3,594	—
Customer 9*	Power	—	—	83,667
Customer 10	Gas	—	—	49,138
Others **		225,512	129,273	141,957
Revenue		**$ 1,166,526**	**$ 717,894**	**$ 613,041**

* See Note 12 to the Company's audited financial statements included elsewhere in this report.

** Among others, there are no customers that represent more than 10% of the Company's revenue concentration.

Each of the following customers of the Company represent more than 10% of the revenue, for one or more of the years ended December 31, 2017, 2016 and 2015: CFE, Cenagas, Pemex TRI, Sempra Natural Gas, Sempra Generation and Shell.

Sempra Natural Gas and Sempra Generation are subsidiaries of Sempra Energy, the indirect controlling shareholder of the Company.

v) Legal Framework and Taxation

All of the Company's activities in Mexico are governed by the Mexican Constitution along with a diverse body of laws, regulations, general provisions, guidelines and official technical standards.

The Company is subject to Mexican legislation governing the following activities of its business:

- ***Storage***: Includes receiving, storing and delivering natural gas, LNG, LPG or oil products with respect to facilities other than pipelines.
- ***Regasification***: The process through which natural gas in a liquid form is changed to a gaseous form.
- ***Liquefaction***: The process through which natural gas in a gaseous form is changed to a liquid form.
- ***Transportation***: Includes building, operating and owning pipeline systems for receiving, transporting and delivering natural gas, LPG or ethane, excluding marketing of such gas.
- ***Distribution***: Includes receiving, transporting and delivering natural gas for public retail or directly to end users via pipelines within defined geographical zones authorized by the Mexican Energy Regulatory Commission.
- ***Marketing***: Encompasses activities related to the marketing of hydrocarbons, including purchase and sale of natural gas and brokerage or intermediary value-added services for end-users.
- ***Power generation***: The process that transforms energy (renewable, kinetic, thermal, nuclear, among others) into electricity. It includes the supply of electrical energy to users (Mexican Federal Electricity Commission, qualified users, among others) or to the wholesale electric market.
- ***Power export***: The process of generating electricity and supplying such electricity to users in any electric energy market abroad (including the U.S. energy market).
- ***Power import***: The purchase of electric energy abroad (including the United States) from providers for self-supply, or the purchase of electric energy from a power plant abroad, when interconnected to the Mexican National Grid.

Applicable laws related to Natural Gas, LPG, Ethane and Oil Products activities

Article 27 of the Mexican Constitution sets forth the general principles that regulate activities involving oil, natural gas and other hydrocarbons in Mexico. Historically, Article 27 prohibited the Mexican government from entering into agreements or granting concessions with respect to hydrocarbons activities and specified that certain activities involving oil and other hydrocarbons were exclusively reserved to the Mexican government under a vertical integration system.

In 1995, the Mexican Congress passed a bill allowing private-sector participation in transportation, storage, distribution and commercialization of natural gas and LPG in Mexico. The Natural Gas Regulations (*Reglamento de Gas Natural*) were published in 1995. The LPG Regulations (*Reglamento de Gas Licuado de Petróleo*) were issued in 1999.

In December 2013, certain provisions of the Mexican Constitution related to the hydrocarbon sector were amended, and the legal framework applicable to, among others, the upstream and midstream sectors was modified in August 2014 and October 2014 with the promulgation of new laws and the enactment of implementing regulations. This allowed the Mexican government to grant contracts to private-sector entities in the upstream sector through public tenders. These amendments also allow private-sector entities to obtain permits for the processing, refining, marketing, transporting, storing, importing and exporting hydrocarbons, including the processing, compression, liquefaction, regasification, transportation, distribution, marketing and retail of natural gas; the transportation, storage, distribution, marketing and retail of oil products, including LPG; and the transportation (through pipelines) and related storage of petrochemicals, including ethane.

New legislation enacted in 2014, including the Mexican Hydrocarbons Law (*Ley de Hidrocarburos*) preserved the concept of state ownership over hydrocarbons while located in the subsoil and opened the hydrocarbon sector to the participation of private companies, subject to certain regulatory requirements.

In particular, in October 2014, two sets of implementing regulations for the Mexican Hydrocarbons Law were enacted: (i) the Mexican Hydrocarbon General Regulations (*Reglamento de la Ley de Hidrocarburos*) and (ii) the

Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbons Law (*Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos*). These regulations and the General Administrative Rules *(Disposiciones Administrativas de Carácter General)* issued by the Mexican Energy Regulatory Commission regulate Mexico's natural gas, LNG, LPG, oil product and ethane markets.

Given its business, the Company is primarily regulated by the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbons Law. They establish the following with respect to storage, transportation, distribution and marketing permits:

- technical requirements applicable to the operations of permit-holders, such as efficiency, frequency, safety, continuity and uniformity in the supply of natural gas;
- open access obligations;
- the rules applicable to the term, duration and renewal of permits;
- the rules applicable to the modification, transfer, cancellation and revocation of permits;
- the requirements to be met for the approval of permits;
- the procedures for the granting of permits;
- the rules related to the provision of different services, including specific obligations of permit- holders; and
- the regulation of rates and terms of the service.

The Mexican Hydrocarbons Law allows private-sector entities holding a permit granted by the Mexican Energy Regulatory Commission to store, transport, distribute, commercialize and carry out direct sales of hydrocarbons, as well as to own and operate pipelines and liquefaction, regasification, compression and decompression stations or terminals, and related equipment in accordance with technical and other regulations. In addition, private-sector entities may import or export hydrocarbons subject to a permit from the Mexican Ministry of Energy. Permits granted prior to the enactment of the Mexican Hydrocarbons Law, such as several of the Company's permits, including their general terms and conditions, will remain in force during their original term, and rights held by permit-holders will not be affected by the new laws and regulations. However, new permits, such as marketing permits granted by the Mexican Energy Regulatory Commission and import and export permits granted by the Mexican Ministry of Energy are required in connection with the Company's operations. The Company has applied for and obtained the new required marketing permits within the statutory time period.

Activities in the midstream and downstream natural gas, LPG, ethane and oil product industries are subject to the provisions of the Mexican Hydrocarbons Law, the Mexican Energy Sector Coordinated Regulatory Agencies Law (*Ley de los Órganos Reguladores Coordinados en Materia Energética*), the Mexican National Agency for Industrial Safety and Protection of the Environment of the Hydrocarbons Sector Law (*Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), the Mexican Hydrocarbon General Regulations, the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbons Law and applicable environmental and safety regulations. Directives and General Rules (*Disposiciones Administrativas de Carácter General*) issued by the Mexican energy and environmental authorities, Mexican Official Standards (*Normas Oficiales Mexicanas*) and terms and conditions set forth in related permits also regulate the Company's activities. See "Risk Factors-*The Company operates in a highly regulated environment, and its profitability depends on its ability to comply with a number of laws and regulations on a timely and efficient basis.*"

Building and operating natural gas, LNG, LPG, ethane and oil products storage facilities, pipelines and distribution systems require governmental permits and authorizations from federal, local and municipal authorities, such as the Mexican Energy Regulatory Commission, the Mexican Federal Economic Competition Commission, SEMARNAT, ASEA and the Mexican Ministry of Energy, real estate rights-of-way, and other related authorizations. Permits issued by the Mexican Energy Regulatory Commission also impose a series of regulatory obligations and specific terms and conditions commonly referred to as "general terms and conditions" (*Términos y Condiciones Generales*).

Open Access

Pursuant to the Natural Gas Regulations (under which the Company obtained several of its permits but which was repealed by the Mexican Hydrocarbons Law and its regulations), there were two types of natural gas storage and transportation permits: open-access (to provide services in a way similar to a utility) and self-use (granted exclusively to end-users or a group of end-users organized in a special purpose vehicle or company). With the exception of a self-use natural gas pipeline that serves the Termoeléctrica de Mexicali power generation facility, all the Company's transportation systems ‒both under the former and current regulation‒ are open-access pipelines. Likewise, its LNG and LPG terminals are open-access storage facilities.

All of the Company's open-access facilities are required to grant non-discriminatory access on a reasonable basis to any shipper that requests the service, provided there is available capacity in the system/facility and the parties reach an agreement on the subject matter, as set forth under the applicable general rules issued by the Mexican Energy Regulatory Commission. Open-access permit-holders are heavily regulated and supervised by the Mexican Energy Regulatory Commission. Regarding the self-use natural gas pipeline that serves the Termoeléctrica de Mexicali power generation facility, the Mexican Hydrocarbons Law provides that permits issued prior to the enactment of the law will remain in force during their original term.

Permit holders subject to open access obligations that have available capacity are required to perform open seasons to allocate such capacity to third parties. Available capacity is deemed to exist when (1) a new system is developed, (2) the capacity of an existing system is increased in view of operational efficiencies or an extension of infrastructure, (3) existing capacity has not been allocated by means of a service contract, or if having been contracted under executed services agreements is not actually being used by the corresponding users or (4) the end user transfers the capacity through the permit-holder.

Rates

Midstream and downstream natural gas, LNG, LPG and oil products services are subject to "maximum regulated rates" that are determined by the Mexican Energy Regulatory Commission. Permit holders may grant discounts or reach specific agreements with respect to rates subject to general rules issued by the Mexican Energy Regulatory Commission. These agreements must be registered with the Mexican Energy Regulatory Commission, which will allow public access to the agreements.

Marketing and Cross-shareholding Restrictions

The Mexican Hydrocarbons Law establishes that a permit from the Mexican Energy Regulatory Commission is required to commercialize natural gas. As a result, marketing activities carried out by the Company's subsidiary, IEnova Marketing, are subject to a permit. Pursuant to the Mexican Hydrocarbons Law and other applicable laws, IEnova Marketing has obtained the required permits from the Mexican Energy Regulatory Commission to continue marketing natural gas. Vendors or marketing companies are bound to retain, directly or through third parties, transportation, distribution or storage services from other permit-holders. In addition, with certain exceptions set forth in the law, storage and open-access transportation permit-holders are generally banned from marketing natural gas stored in their facilities or transported through their systems.

The Mexican Hydrocarbons Law provides cross-shareholding restrictions with respect to vendors and open-access transportation or storage permit-holders. However, cross-shareholding may be allowed by the Mexican Energy Regulatory Commission, with previous approval from the Mexican Federal Economic Competition Commission, provided that such cross-shareholding does not affect competition, market efficiency or effective open access. Compliance with these requirements may be met by guaranteeing independent operations or by establishing legal and corporate mechanisms to prevent intervention in operations and management. According to the applicable rules, the following may be required: (1) the strict legal unbundling of permitted activities or a functional, operational and accounting separation, (2) participation limitations on a company's share capital, (3) maximum participation limitations for economic agents who perform marketing and (4) the reservation of capacity in storage facilities and pipelines. Some of the Company's assets are subject to cross-shareholding regulation by the Mexican Energy Regulatory Commission; therefore, such assets have obtained the proper authorizations and complied with the applicable regulation in such regard.

Storage General Terms and Conditions

The LNG and LPG storage general terms and conditions (*Términos y Condiciones Generales para la Prestación del Servicio de Almacenamiento de Gas Natural Licuado* and the *Términos y Condiciones Generales para la Prestación del Servicio de Almacenamiento de Gas Licuado de Petróleo*), which form part of the Company's LNG and LPG storage permits, apply to all of its service agreements for the receipt, storage and delivery of LNG and LPG. The LNG and LPG storage general terms and conditions are approved and registered with the Mexican Energy Regulatory Commission. The general terms and conditions are amended from time to time by the Company, as may be required to comply with applicable legal provisions and any new administrative regulations that the Mexican Energy Regulatory Commission may issue. Thus, certain provisions of the general terms and conditions may vary if the terms and conditions are amended from time to time, subject to the Mexican Energy Regulatory Commission's prior approval.

Further, although the general terms and conditions for each of its storage permits are substantially similar, there may be certain provisions that vary between each permit. Below is a summary of the principal provisions that are common to the general terms and conditions for each of the Company's storage permits:

Services. The Company is required to provide storage services for its customers by receiving LNG or LPG at its storage facilities, providing storage services and delivering the resulting product to its customers at any authorized point of delivery.

Access to Available Storage Capacity. The Company is required to provide customers with reasonable access to the available storage capacity at its LNG or LPG terminals not yet under contract pursuant to a firm storage services agreement. Customers can access such capacity by executing a relevant services agreement, provided that they have the necessary pipeline connection to the facilities at the points of delivery specified in the services agreement. In addition, customers must provide a financial guarantee covering compliance with their obligations under the services agreements and the LNG or LPG general terms and conditions.

Firm Storage Services. Firm storage services consist of storing LNG or LPG delivered at the receipt point up to the customer's maximum storage quantity specified in the relevant services agreement and delivering natural gas or LPG at the point of delivery at any time in accordance with the services agreement. Firm storage services may not be subject to reductions or interruptions, with exceptions specified in the LNG or LPG general terms and conditions and the relevant services agreement.

Interruptible Storage Services. Interruptible storage services consist of storing LNG up to the maximum storage quantity specified in the relevant services agreement. Customers have the right to request this service while the services agreement is in effect. However, interruptible storage services are subject to any available capacity remaining after fulfilling the firm storage services obligations.

Interruption of Services. Customers are not entitled to receive storage services if they are not in compliance with any of their storage services payment obligations, subject to an exception for customers that provide a satisfactory guarantee to cover the overdue payment, with the Company's consent.

Creditworthiness. Customers must be solvent or provide evidence of creditworthiness within 30 days after their service request to be eligible to receive LNG or LPG storage services. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee securing their obligations under the LNG or LPG general terms and conditions.

Suspension, Reduction or Modification of the Storage Service. If customers fail to comply with their obligations under their services agreements, the Company may suspend LNG and LPG storage services. Subject to a cure period, the Company may terminate the relevant services agreement. The services agreement will terminate automatically in the event of a customer's insolvency, and the Company will have the right to make a claim under any financial guarantee granted by such customer. If the Company suspends LNG or LPG storage services without a justified cause, the Company will provide a credit equal to five times the rate of the LNG or LPG storage service that would have been available for such customer during the suspension, to be calculated in accordance with the terms of the LNG general terms and conditions.

Miscellaneous Purchases and Sales. The Company is not obligated to execute a services agreement at a lower rate than the regulated rate.

Payment. If customers breach their payment obligations, the overdue amounts accrue interest at a daily rate calculated pursuant to the LNG or the LPG general terms and conditions. Failure to pay within a certain period of time provided in the LNG or the LPG general terms and conditions may result in suspension of service.

Responsibility, Warranty and Assignments. The Company is deemed to be in control of and responsible for any stored LNG or LPG from the time of receipt until delivery to customers. Customers are deemed to be in control of and responsible for LNG or LPG prior to the Company's receipt thereof, or after delivery.

Storage services agreements may be assigned or pledged by either party with the prior written consent of the other party. Customers are deemed to have unconditionally consented to the assignment of their rights and obligations to lenders for purposes of securing financing and to any entity that acquires the LNG or LPG terminals from the Company, with prior authorization of the Mexican Energy Regulatory Commission.

The Company's liability to customers is limited to damages suffered directly as a result of its failure to perform its obligations under a storage services agreement (suspension or interruption of delivery of LNG or LPG at the point of delivery). Customers must ensure that their vessels are fully covered by insurance (including environmental insurance) and manned and maintained in accordance with applicable national and international standards.

Force Majeure. A *force majeure* event is any event, foreseeable or unforeseeable but unavoidable, that hinders or prevents the affected party from complying with its obligations under a storage services agreement. Upon receipt of a notification informing the other party of such conditions (except with respect to any prior payment obligation), the obligations of both parties are suspended for as long as the *force majeure* event continues. Under no circumstance shall financial and/or technical difficulties be considered a *force majeure* event. If a *force majeure* event affects the Company's LNG or LPG terminals, its customers' obligation to make storage capacity payments under the services agreement will be suspended or, if applicable, reduced *pro rata* for the level of storage services provided. The Company may also suspend, restrict or modify deliveries of natural gas or LPG to customers to the extent affected by such event.

In the event of a suspension or reduction of LNG or LPG storage services unrelated to the Company's LNG or LPG terminal facilities, customers must continue paying any amount owed by them at the time the *force majeure* event occurred.

Gas for the Operation of the LNG Terminal. The Company requires a certain amount of natural gas for the operation of the LNG terminal and provision of storage services and is entitled to retain and use, at no cost or charge, its customers' available stored LNG for such purposes.

Dispute Resolution. Any disputes will be resolved through arbitration.

Assignment of Shipper's Capacity. Any customer may temporarily or permanently assign all or a portion of its supplied quantity of natural gas or LPG storage capacity to another customer with prior notice to the Company. Any such transfers of contractual rights must be approved by the Company and are subject to the creditworthiness requirements.

Connection Policy. The Company has an obligation to allow any entity to connect to its LNG or LPG terminals and related pipelines, subject to certain conditions related to available capacity and technical viability, provided that the party seeking the connection must bear all costs associated with such connection and other costs.

Natural Gas, LPG and Ethane Transportation General Terms and Conditions

The pipeline general terms and conditions (*Términos y Condiciones Generales para la Prestación del Servicio de Transporte de Gas Natural, Términos y Condiciones Generales para la Prestación del Servicio de Transporte de Gas Licuado de Petróleo*, *Términos y Condiciones Generales para la Prestación del Servicio de Transporte de Etano* and *Términos y Condiciones Generales para la Prestación del Servicio de Transporte de Etano Liquido*) regulate transportation services agreements executed in connection with pipelines and are self-executing provisions that form part of such agreements. The pipeline general terms and conditions are approved and registered with the Mexican Energy Regulatory Commission with respect to each transportation permit. The general terms and conditions are amended from time to time by the Company, as may be required to comply with the applicable legal provisions and any new administrative regulations that the Mexican Energy Regulatory Commission may issue. Thus, certain provisions of the general terms and conditions may vary if the terms and conditions are amended from time to time, subject to the Mexican Energy Regulatory Commission's prior approval.

Further, although the general terms and conditions for each of its transportation permits are substantially similar, there may be certain provisions that vary between each permit and its related agreement. Below is a summary of the principal provisions that are common to the general terms and conditions for each of the Company's transportation permits and their related agreements:

Term. The pipeline general terms and conditions are in effect for the term of the corresponding permit granted by the Mexican Energy Regulatory Commission.

Increase of Capacity. In the event that requests for pipeline services exceed the available capacity of the Company's pipelines, the Company must build additional facilities to increase its pipelines' available capacity to fulfill such requests as long as it is technically and economically viable.

Pipeline Services Agreements. The Company may only render pipeline services to customers that have executed a pipeline services agreement based on forms prescribed by the gas pipeline general terms and conditions and after the customer fulfills all of the requirements provided in the gas pipeline general terms and conditions. The Company enters into agreements after a full analysis of the service requests received from potential customers.

Orders. During the term of a pipeline services agreement, the Company's customers prepare and deliver orders containing the information regarding the daily amount of product to be transported, the reception and delivery points (which must have been previously approved) and the order start and end dates.

Creditworthiness. Under the gas pipeline general terms and conditions, the Company is not obligated to provide pipeline services to customers with outstanding balances with the Company or impaired creditworthiness. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee securing their obligations under the gas pipeline general terms and conditions.

Assignment. Pipeline capacity may be assigned with the Company's prior written consent, provided that the assignee complies with the pipeline general terms and conditions, including providing the required guarantee.

Payments. If customers breach their payment obligations, the overdue amounts accrue interest at a daily rate. Failure to pay within the grace period, which pursuant to each of the general terms and conditions may vary from ten to ninety days, may result in suspension of service and termination of the agreement.

Interruption of Services. Most of the general terms and conditions specifically provide that the Company is not liable for interruptions of pipeline services if there is a *force majeure* event, in the event of failure of a customer's facilities, in the event interruption is required for the maintenance or adjustment of its facilities, or in case of breach of obligations by the customer. Under some of the general terms and conditions and under certain circumstances, customers are required to pay the corresponding capacity fee during the interruption period. A service interruption, other than as described above, requires the Company to provide a premium to the affected customer equivalent to five times the amount of product that would have been available during the interruption period as if such interruption had not occurred.

In the event of an interruption attributable to a *force majeure* event that lasts more than five business days, the Company must file a corrective plan with the Mexican Energy Regulatory Commission.

A *force majeure* event is any event, foreseeable or unforeseeable but unavoidable, that hinders or prevents the affected party from complying with its obligations under a pipeline services agreement. After a certain term of such *force majeure* event, which may vary in each of the general terms and conditions, the affected party may terminate the services agreement.

Indemnification. Customers must indemnify the Company and its officers, agents, employees and contractors for any damage or loss suffered in connection with any breach of the customer's obligations under their pipeline services agreements.

Dispute Resolution. Any disputes will be resolved through arbitration. If a customer is deemed a consumer for purposes of the Mexican Federal Consumer Protection Law (*Ley Federal de Protección al Consumidor*), any disputes will be resolved in accordance with such law.

Rates. The Company is allowed to negotiate lower rates than the ones provided in the relevant list of rates approved by the Mexican Energy Regulatory Commission. In any case, rates for interruptible services or common use must be lower than rates for firm services. The Company must publish any regulated rates annually in the Mexican Federal Official Gazette and in the official gazettes of the states in which the Company provides transportation services.

Natural Gas Distribution General Terms and Conditions

The natural gas distribution general terms and conditions (*Términos y Condiciones Generales para la Prestación del Servicio de Distribución de Gas Natural*) included in the Company's natural gas distribution permits regulate the receipt, delivery and marketing of natural gas. The gas distribution general terms and conditions are approved and registered with the Mexican Energy Regulatory Commission with respect to each natural gas distribution permit that it grants for certain geographic zones. The general terms and conditions are amended from time to time by the Company, as may be required to comply with the applicable legal provisions and any new administrative regulations that the Mexican Energy Regulatory Commission may issue. Thus, certain provisions of the general terms and conditions may vary if the terms and conditions are amended from time to time, subject to the Mexican Energy Regulatory Commission's prior approval.

Further, although the general terms and conditions for each of its gas distribution permits are substantially similar, there may be certain provisions that vary between each permit. Below is a summary of the principal provisions that are common to the general terms and conditions for each of the Company's gas distribution permits:

Services. The Company provides simple-distribution and distribution-with-marketing of natural gas services by delivering natural gas to its customers at different delivery points in its pipeline system. In the event that the Company interrupts services without cause, it must compensate its customers in an amount equivalent to five times of the amount of natural gas that would have been available for such customers if interruption had not occurred.

Interconnection. After expiration of the exclusivity periods granted to the Company by the Mexican Energy Regulatory Commission for each geographic zone, the Company must allow other permit holders to connect to its pipeline system as long as the Company has sufficient available capacity and if such connection is economically viable. Any connection fees will be agreed by the Company and the other permit holders.

Rates. The Company is allowed to negotiate lower rates than the ones provided in the relevant list of rates approved by the Mexican Energy Regulatory Commission. The Company must publish any regulated rates annually in the Mexican Federal Official Gazette and in the official gazettes of the states in which the Company provides distribution services.

Capacity of the System. In order to calculate the maximum daily use of its distribution system the Company is required to use the "Stoner Workstation" simulation model, which is the international standard in its industry, to calculate pipeline flows. If the requested capacity exceeds its available capacity, its residential and commercial services have priority, and the Company must consult with its industrial customers regarding reduction or interruption of their industrial service.

Credit, Deposits and Guarantees. The Company's customers must comply with at least one of the following creditworthiness requirements: (1) make a cash deposit in the Company's favor equivalent to three times the monthly consumption estimated for such customer; (2) obtain a joint obligor, a letter of credit or a bond to guaranty the payment of the invoices; or (3) comply in a timely manner with the payment of all invoices for twelve consecutive months.

Safety Obligations. If there is an occurrence that may cause a risk to public health and safety, the Company must provide immediate notice to the Mexican Energy Regulatory Commission and to the appropriate local authorities, informing them of the measures adopted to resolve the problem. The Company is also obligated to use equipment, materials and systems that comply with the specifications provided by the Mexican Official Standards, or in the absence of such provisions, with the internationally adopted specifications in its industry. Likewise, the Company is obligated to train its personnel to prevent and remedy accidents, as well as to provide any needed assistance to government authorities in case of emergencies or disasters. In addition, the Company must acquire and keep in full force the insurance required by the relevant permits to cover any liabilities that may arise.

Liabilities. The Company will be liable for the damages that may be caused while rendering the services up to the delivery point, except in case of willful misconduct or negligence of the damaged party. After the delivery point, the customers will be liable for any damages suffered by such customers or any third parties.

Interruption of the Services. The Company may interrupt the services without any liability in the following cases: (1) if the Company determines that the system or equipment of a customer represents a significant danger or risk or (2) by written order issued by a competent authority stating that the the customer's system represents a danger or risk or that it does not comply with applicable legal provisions. The Company is also entitled to suspend service in the event that customers fail to pay more than one invoice that is due.

In addition, the Company will not be liable for the interruption of the services as a consequence of (1) acts of God or *force majeure* event; (2) failures of the customer systems due to operator error; (3) maintenance, extension or modification work on the systems, if the Company provides prior notice to the customers; or (4) breach by the customers of their obligations under the services agreements.

Termination. Any customer may terminate a services agreement with the Company by providing the Company with at least two days advance notice before the termination date.

Dispute Resolution. Disputes arising in connection with the services will be resolved through arbitration.

The disputes in which the customer is considered a consumer in terms of the Federal Law for the Protection of Consumers *(Ley Federal de Protección al Consumidor)* will be resolved in accordance with such law.

Mexican Official Standards, Directives and General Rules

In addition to the laws and regulations mentioned above, the legal framework that regulates the Company's activities also includes (1) the Mexican Official Standards issued by the Mexican Ministry of Energy, Mexican Energy Regulatory Commission and ASEA in connection with technical matters of its business, such as product quality and technical specifications related to the design, construction, safety, operation and maintenance of its transportation, storage and distribution systems and facilities, (2) the Directives issued by the Mexican Energy Regulatory Commission that regulate economic matters applicable to its business such as prices and rates and accounting and insurance matters, (3) the General Rules related to service provision issued by the Mexican Energy Regulatory Commission and the General Rules related to environmental protection and industrial safety issued by ASEA, and (4) public policy documents issued by the Mexican Ministry of Energy regarding any of the activities of the hydrocarbons sector in which the Company participates.

Other Authorizations

There are several other permits and/or licenses that may be required by the three different levels of government (municipal, state or federal) for the development, construction and operation of hydrocarbon systems. These include environmental permits, social permits, zoning permits, construction permits, concessions over and/or crossing of federal areas such as rivers, streams and maritime zones, among others.

Mexican Federal Economic Competition Commission

COFECE is an independent body of the Mexican government that has joint jurisdiction in the activities of natural gas, LPG, oil products and ethane concerning the prevention of, and enforcement against, monopolistic practices and economic concentrations. With the approval of COFECE, the Mexican Energy Regulatory Commission may issue new regulations to develop competitive markets in the hydrocarbons sector, which may include bundling restrictions, shareholder limitations, and caps in economic operators' participation in marketing activities.

National Center of Control of Natural Gas (CENAGAS)

CENAGAS is a newly created agency of the Mexican Federal government (*organismo público descentralizado*). CENAGAS's main responsibility is to manage and operate the Integrated National System of Transportation and Storage of Natural Gas (*Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural*), which was previously managed by Pemex. Some of its assets are part of the Integrated National System of Transportation and Storage of Natural Gas.

Other Relevant Provisions

The Company's business operations are subject to other standards that may affect its business, including state and municipal laws, and regulations related to zoning, construction and civil protection.

Electricity Generation and Export

Given the amendment to the Mexican Constitution in December 2013 and the enactment of the Mexican Electric Industry Law (*Ley de la Industria Eléctrica*), which repealed and replaced the former Mexican Public Electricity Service Law (*Ley del Servicio Público de Energía Eléctrica*), private entities are allowed to obtain permits for the generation and marketing of electricity in the wholesale electricity market, and to participate in the construction, operation and administration of power plants. The Mexican State continues to carry out the transmission and distribution of electricity through the Mexican Federal Electricity Commission or other state- owned companies, but it may enter into contracts with private companies related to such activities, including contracts for the financing, installation, maintenance, procurement, operation and expansion of the electric network infrastructure. Planning and control of the grid falls under the exclusive authority of the Mexican Federal government and is carried out through CENACE, the governmental body responsible for managing the national electrical grid, acting as an independent system operator for the wholesale electricity market.

In terms of the Electricity Market Rules *(Bases del Mercado Eléctrico)*, private generators of electricity may participate in a new wholesale open market operated by CENACE by selling energy and associated products to the Mexican Federal Electricity Commission or to "Qualified Users." Within such market, only entities who become market participant "Qualified Users" (i.e. entities that register with the Mexican Energy Regulatory Commission and that have a yearly demand of at least 5 MW and a yearly energy intake of at least 20 GWh) will be able to purchase electricity and associated products through long-term power coverage agreements or in a spot market either from the Mexican Federal Electricity Commission or from other third parties.

Under the Mexican Electric Industry Law, power stations with an installed capacity of 0.5 MW or more as well as those represented by a generator in the wholesale market (regardless of the installed capacity) will require an energy generation permit. Power stations with an installed capacity of less than 0.5 MW will not require a permit but will need a supplier acting on their behalf to sell their energy and associated products in the wholesale market.

Permits granted prior to the enactment of the Mexican Electric Industry Law (such as the 2001 export permit for its Termoeléctrica de Mexicali power generation facility, the 2013 export permit for its Energía Sierra Juárez wind power generation facility, and the generation permit for its Ventika wind power generation facility) will continue to be effective, and rights held by permit-holders will not be affected by the new laws and regulations.

Pursuant to the Mexican Electric Industry Law and implementing regulations, certain clean energy usage obligations (for the reduction of air emissions) are applicable to participants in the electric energy market. Such participants include energy suppliers, "Qualified Users," final users whose source of energy results from a self- supply (*abasto aislado*) scheme and load points in grandfathered interconnection agreements. These usage obligations will be credited by clean energy certificates and will be required starting in 2018 in the proportion to the actual energy consumption that the Mexican Ministry of Energy determines each year, which is 5% for 2018, 5.8% for 2019, 7.4% for 2020, 10.9% for 2021 and 13.9% for 2022.

As of 2018, clean energy certificates will be issued to "clean energy generators," such as the Pima, Tepezalá and Rumorosa Solar projects under development. Electric power generators will be entitled to receive a clean energy certificate per MW/hr generated at clean power plants (such as wind and solar farms, geothermal energy projects and cogeneration power plants). These clean energy certificates will be negotiable through the spot market, long-term power coverage agreements in the wholesale electricity market or through private power coverage agreements between market participants.

In December 2015, the Mexican Energy Transition Law was published. This new law, which repeals a former renewable energy statute, aims to regulate the use of sustainable energy and obligations regarding clean energy and reduction of polluting air emissions in the electricity industry. Consequently, the Mexican government must implement strategies and programs to achieve specific goals regarding clean energy; at present, such goals consist of generating at least 25% of the electricity in Mexico from clean sources by 2018, 30% by 2021 and 35% by 2024. The national goals that have been established in the Mexican Energy Transition Law will be achieved by means of several mechanisms, including voluntary agreements between private entities and the Mexican Ministry of Energy, voluntary certification awards, and the aforementioned obligation to use clean energy and acquire clean energy certificates.

As facilities interconnected to the grid controlled by the California Independent System Operator, the Termoeléctrica de Mexicali power generation facility and the Energía Sierra Juárez wind power generation facility are subject to the electric reliability standards promulgated by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council pursuant to Section 215 of the Federal Power Act.

United States electric utility regulations apply to the sales of electricity from the Termoeléctrica de Mexicali power generation facility and the Energía Sierra Juárez wind power generation facility into the United States. A company engaged in the wholesale sale of electricity for resale in interstate commerce is subject to regulation under the Federal Power Act by the U.S. Federal Energy Regulatory Commission, or FERC. FERC regulation under the Federal Power Act includes regulations for establishing the rates, terms and conditions under which electricity generators are able to sell electricity at wholesale, as well as other ongoing regulation regarding requirements to file electronic quarterly reports, periodic market power reports, and in the event that an issuer or an affiliate acquires ownership or control of additional energy assets, to notify FERC of these acquisitions, and to comply with applicable FERC requirements, including with respect to securities issuances, transfers of FERC- jurisdictional facilities, reliability standards, market behavior and manipulation, and accounting requirements.

The Termoeléctrica de Mexicali power generation facility and the Energía Sierra Juárez wind power generation facility are subject to the U.S. Public Utility Holding Company Act of 2005, or PUHCA. Under PUHCA, a "holding company" is any business entity, trust, or organized group of persons that directly or indirectly owns or controls 10% or more of the outstanding voting interests in a "public-utility company" or company which is a "holding company" of a public-utility company. Unless it qualifies for an exemption or obtains a waiver from FERC, a holding company is subject to certain regulations granting FERC access to books and records relating to transactions with affiliated public utilities or "natural gas companies," as defined in PUHCA, and FERC regulation of certain affiliate transactions and certain disclosure, accounting and cost-allocation matters. State utility regulatory commissions in some instances also have access to books and records of holding companies or public-utility companies that are not exempt from PUHCA. FERC regulations exempt companies that are holding companies only by virtue of their direct or indirect ownership of (1) "qualifying facilities" under the Public Utility Regulatory Policies Act of 1978, (2) Exempt Wholesale Generators (as defined in PUHCA), or EWGs, or (3) "foreign utility companies," as defined in PUHCA. In addition, FERC regulations provide that an EWG is exempt from FERC regulation under PUHCA, other than the procedures for obtaining EWG status. In order to be an EWG, a project company must be exclusively engaged in owning or operating, or both owning and operating, an "eligible facility" and selling electricity at wholesale. An "eligible facility" is a generation facility used exclusively for the sale of electricity at wholesale.

Mexican Energy Sector Coordinated Regulatory Agencies Law

In addition to the Mexican Hydrocarbons Law, the Mexican Energy Sector Coordinated Regulatory Agencies Law establishes the authorities of the Mexican Energy Regulatory Commission as well as its structure and internal organization. The Mexican Energy Regulatory Commission is an agency of the Mexican government that has technical, operating and management autonomy, and is the sole body responsible for granting midstream and downstream permits to participants in the natural gas, LPG, LNG, oil product and petrochemical sectors in Mexico. Additionally, the Mexican Energy Regulatory Commission is responsible for granting energy-related permits to generators and qualified users, as well as permits for the importation and exportation of such energy, and for supervising, monitoring and inspecting such generators' and users' operations and full performance of the corresponding permits. The Mexican Energy Regulatory Commission is its main supervising authority.

Pursuant to the Mexican Energy Sector Coordinated Regulatory Agencies Law, the Mexican Energy Regulatory Commission has broad powers and authority to regulate natural gas, LPG, LNG, oil products and ethane storage, regasification, transportation, distribution, processing, liquefaction, compression, decompression, marketing, import and export activities, such as the issuance of terms and conditions that shall govern such services provided by the public and private sectors and the issuance of guidelines to calculate the rates applicable to such services. It also has the authority to oversee the operations of the wholesale electricity market and to issue regulations and general rules to foster the generation and use of clean energies.

General Law on Administrative Liabilities

On July 18, 2016, the legal framework that creates Mexico's National Anticorruption System was published in the Federal Official Gazette. This new legal framework implements the 2015 Constitutional reform on anticorruption matters and is comprised by several laws, including the General Law for Administrative Responsibility. Although it was published in the Official Gazette on July 18, 2016, the General Law for Administrative Responsibility became effective on July 19, 2017.

The aforementioned law establishes certain mechanisms for private parties to prevent corruption, such as (i) organizational guidelines establishing areas in charge of doing business with the government and their obligations and responsibilities; (ii) a code of conduct for their employees; (iii) recruiting policies addressed to detect potential liabilities and/or conflicts of interest when conducting business with governmental entities; and (iv) monitoring procedures and accountability for the Company's personnel, as well as disciplinary procedures for any employee who fails to comply with the Company's policies and/or the applicable law.

Additionally, the General Law for Administrative Responsibility sets forth certain rules and guidelines to prevent and sanction persons and companies for the unlawful participation in administrative procedures, influence peddling, bribery, wrongful exercise of public funds, collusion in public tenders (including procedures called by foreign entities), use of false information when applying for an administrative permit, authorization or concession, among others.

In view of the above, the Company is subject to the General Law for Administrative Responsibility with respect to any activities that require the granting of a permit or a concession, public procurement processes, and/or any other administrative procedure carried out before a governmental entity.

The General Law for Administrative Responsibility establishes the administrative procedures for the investigation of possible unlawful conduct and addressing claims. Pursuant to such law, the Ministry of Public Administration of the Federal Government (*Secretaría de la Función Pública*) and ministries of the local governments are in charge of investigating and penalizing any minor offense, while the Federal Superior Audit Office and the local audit offices will be responsible for investigating and penalizing major offenses.

Offenses committed by private parties will be subject to the Federal Administrative Court, which now has a special chamber in charge of judging severe corruption actions, and is entitled to impose the corresponding penalties and required sanctions.

As for the extent of the penalties that may be applied to a private company upon any unlawful action, the General Law for Administrative Responsibility provides for the following: (i) fines up to two times the amount obtained by the company from any unlawful action or between 1,000 up to 1,500,000 times the unit of measure (*unidad de medida y actualización*); (ii) disqualification from participating in any public procurement procedure for at least 3 months and up to 10 years; (iii) suspension of all commercial activities of the private company for at least 3 months and up to 10 years; (iv) dilution of the company and (v) compensation for the damages caused to the federal public treasury and/or federal, local or municipal entities.

Mexican Data Protection Law

The Company is subject, and in particular the Ecogas distribution system is subject, to the provisions of the Mexican Data Protection Law (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*) that entered into effect in Mexico as of July 6, 2010. The Mexican Data Protection Law is applicable for natural persons or private legal entities that process personal data concerning Mexican citizens.

Pursuant to the Mexican Data Protection Law, the processing and transfer of personal data requires consent by the data owner prior to such processing or transfer. Consent can be obtained by means of a document referred to in the law as a "privacy notice," which informs the data owner of the personal data being collected, the purpose for the use of the personal data, any intended transfers and the data owner's rights of access, rectification, and cancellation or opposition to the processing of the personal data. A data owner grants consent for the use of the personal data if it does not oppose the privacy notice. The privacy notice can be delivered through printed, digital, visual, electronic or sonorous means or in any other format. According to the Mexican Data Protection Law, data owners are entitled to revoke their consent at any time. The Mexican Data Protection Law provides certain requirements for the transfer of personal data to third parties and certain exceptions for such requirements in which the transfer of information is permitted.

Mexican Ports Law

As holders of a concession for the use and occupation of a federal maritime zone for the construction and operation of a maritime terminal for its LNG terminal, including a dry dock and ancillary maritime infrastructure, as well as the proposed construction of a new oil products terminal in the port of Veracruz, the Company is subject to (1) the Mexican Ports Law (*Ley de Puertos*) and its regulations and (2) the jurisdiction of the federal government through the Mexican Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*) and the Integral Port Authority of Veracruz for such facility.

Pursuant to the Mexican Ports Law, the construction and operation of maritime infrastructure as well as dredging activities require specific authorizations from the Mexican Secretary of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*). Likewise, the use of federal maritime zones requires special personal authorizations known as concessions, which are exclusive to Mexican corporations. Furthermore, the construction of infrastructure on the sea floor requires authorization from the Secretary of Navy (*Secretaría de Marina*).

Concessions may be granted for up to 50 years, subject to the characteristics and investment of the project in question, and may be renewed for a period of time equal to the one originally granted. A concession may be terminated by the Mexican Secretary of Communications and Transportation for certain reasons set forth in the Mexican Ports Law, including (1) termination of the purpose for which the concession was granted, (2) bankruptcy or liquidation of the permit-holder, or (3) redemption. In addition, its concessions may be revoked in certain circumstances, including if the Company does not comply with its obligations under the permits, or if the Company experiences partial or total interruption in the operation of the system or facility without justified cause.

Constitutional Amendments on Class Action Lawsuits

On July 29, 2010, Article 17 of the Mexican Constitution was amended in order to allow class action lawsuits to be brought in federal courts in connection with civil actions on matters related, among others, to consumer protection and environmental law. Consequently, on August 30, 2011, the Mexican Federal Code of Civil Procedure (*Código Federal de Procedimientos Civiles*), the Mexican Federal Consumer Protection Law and the Mexican General Law on Ecological Equilibrium and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*) were amended to incorporate class action lawsuits. Such amendments became effective on March 1, 2012, though as of the date of this report, to its knowledge, only a few class action lawsuits have been brought before the federal courts in connection with environmental matters.

Mexican Federal Environmental Liability Law

The Mexican Federal Environmental Liability Law (*Ley Federal de Responsabilidad Ambiental*) enacted on July 7, 2013 regulates environmental liability arising from damages to the environment including remediation and compensation. In the event of intentional and unlawful action or inaction, the responsible party will be fined up to approximately 48 million Mexican pesos for 2017. This liability regime is independent from administrative, civil or criminal liability regimes.

Environmental liability may be attributed to an entity for conduct carried out by its representatives, managers, directors, employees, or officers who have operational domain over their activities. The statute of limitations to claim environmental liability is twelve years from the environmental damage. The law allows the interested parties to solve disputes by means of alternative dispute resolution mechanisms, provided the public interest or third party rights are not affected.

Mexican Federal Labor Law

On November 30, 2012, the Mexican Federal Labor Law (*Ley Federal del Trabajo*) was amended in order to incorporate, among other things, (1) labor principles recognized by the International Labor Organization regarding non-discrimination towards women and the disabled in the labor environment, (2) three new employment arrangements (the "initial training contract," the "contract on trial" and the "seasonal discontinuous contract"), and (3) a new subcontracting regime that provides a legal framework for the contracting of employees through third parties. While the Company does not expect these amendments to have a material impact on it, the Company cannot predict with certainty the potential effects from the application of this new law.

Recent Developments in Mexican Securities Issuer Regulations

In September 2015, the Mexican Finance Ministry (*Secretaría de Hacienda y Crédito Público*), through the Mexican Tax Administration Service (*Servicio de Administración Tributaria*) published the Fourth Resolution of Modifications to the Miscellaneous Tax Resolution for 2015 (*Cuarta Resolución de Modificaciones a la Resolución Miscelánea Fiscal para 2015*) in the Mexican Federal Official Gazette, providing the tax treatment applicable to a new type of tax-advantaged publicly traded vehicle, which the Company refers to as FIBRA E, similar to the master limited partnership, or MLP, structures that have been used in the United States with respect to certain energy assets. Such reform was subsequently modified in December 2015 and April 2016.

In general terms, investments in Fibra E's would permit companies to raise capital at lower costs, compared to more traditional sources of financing, by grouping assets that qualify as hydrocarbons, electricity and certain other eligible infrastructure assets, including pipeline, oil and petrochemical storage facilities, which generate stable cash flows. Investments in such vehicles would have certain tax advantages for investors. For example, the sale of securities issued by FIBRA E's would be exempt from taxation in Mexico, for both Mexican resident individuals and non-residents without a permanent establishment in Mexico, similar to the existing tax regulations applicable to real-estate FIBRAs: (1) there would be no income tax payable at FIBRA E and investment company levels, but only at the level of the unitholders when a FIBRA E distributes net taxable income; (2) no income tax payable on dividend distributions and capital returns; and (3) no additional tax payable on dividend distributions. Also, FIBRA E's may shield net taxable income distributed by investment companies with the deduction of a deferred expense created when acquiring investment companies.

In addition, similar to MLPs, Fibra E's allow the manager thereof (which is expected to be an affiliate of the sponsor) to maintain full control of both the FIBRA E and the respective investment companies, granting only minimum corporate rights to unit holders. A technical committee, comprised of a majority of independent members, would also have to be established to supervise the manager and to resolve any transactions that represent a conflict of interest with respect to the manager.

Fibra E's are subject to the minimum requirements of corporate governance, including disclosure of voting agreements, compensation of administrators, minority rights, and supervision by committees, similar to the committees of boards of directors of corporations.

The Company cannot make any prediction regarding the timing or scope of such regulations nor of their effectiveness or success in bringing new capital or investors into Mexico's energy and other infrastructure markets. Finally, the Company can make no assurances that it or its assets will be able to take advantage of new opportunities arising from the enactment of these regulations. In fact, the effect of such regulations may be to increase the competition that the Company faces in raising capital efficiently, or bring new competitors into the market for energy infrastructure assets, which could make it more difficult for the Company to win or develop projects at attractive returns.

Permits

Hydrocarbons Activities Permits

Permits for hydrocarbon activities provide general terms and conditions (*Términos y Condiciones Generales para la Prestación del Servicio*) to regulate the activities governed by the permits. Such general terms and conditions are approved and registered with the Mexican Energy Regulatory Commission with respect to each permit. The general terms and conditions are amended from time to time by the Company, as may be required to comply with the applicable legal provisions and any new administrative regulations that the Mexican Energy Regulatory Commission may issue. Thus, certain provisions of the general terms and conditions of each permit may vary if the terms and conditions are amended from time to time, subject to the Mexican Energy Regulatory Commission's prior approval.

Natural Gas Distribution Permits

Distribution permits are granted to supply natural gas within a designated geographic zone determined by the Mexican Energy Regulatory Commission with the opinion of local authorities with powers over urban development matters. Distribution permits are commonly granted for 30 years and may be extended for a single subsequent period of 15 years. Nonetheless, the permit holder may apply for a new permit a year before the expiration date of the permit.

The Company currently operates three natural gas distribution systems in the areas of Mexicali, Chihuahua and La Laguna-Durango, and it has distribution permits for these geographic zones. The Ecogas distribution system holds separate distribution permits for each of the three distribution zones, which allows it to conduct natural gas distribution services in those locations. Each of these permits has a term of 30 years and their expiration dates range from 2026 to 2029. These permits provide that allocation of distribution services should be granted in an efficient way and in accordance with principles of uniformity, homogeneity, regularity, safety and continuity. In addition, the allocation of distribution service capacity must be conducted on a non-discriminatory basis in accordance with open access principles. Operation and maintenance of the distribution systems must be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable regulations. These permits can only be assigned if the applicable distribution system is transferred together with the permit.

Natural Gas, LPG and Petrochemicals (Ethane) Transportation Permits

Transportation companies are not obligated to provide transportation services in any predetermined geographic zone. Transportation permits refer to a determined capacity and a specific route within Mexican territory. Transportation permits are granted by the Mexican Energy Regulatory Commission on a non-exclusive basis.

Each of the Company's transportation systems holds a separate transportation permit issued by the Mexican Energy Regulatory Commission that allows it to engage in its transportation operations. Each of these permits has a term of 30 years and their expiration dates range from 2028 to 2046.

These permits provide that allocation of pipeline capacity must be conducted on a non-discriminatory basis in accordance with open access principles. In addition, these permits require that operation and maintenance of the transportation system be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable regulations. Any modification of these permits requires the prior approval of the Mexican Energy Regulatory Commission, and these permits can only be assigned if the applicable transportation system is transferred together with the permit.

A transportation system permit can be revoked in the event that (1) there is an interruption of transportation service without cause or the authorization of the Mexican Energy Regulatory Commission, (2) the Company engages in unduly discriminatory practices or charge rates in excess of those authorized by the Mexican Energy Regulatory Commission, or (3) the Company assigns, transfers, conveys or modifies the permit in violation of the permit's requirements.

Natural Gas Marketing Permit

In December 2015, the Mexican Energy Regulatory Commission approved the Company's natural gas marketing permit, including for natural gas trading, management and recruitment of transportation, storage and distribution services. This permit has a term of 30 years and expires in 2045. The permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for not complying with the terms and conditions of the permit, (2) engages in unduly discriminatory practices, (3) makes an assignment, transfer or modification to the permit without the authorization of the Mexican Energy Regulatory Commission, or (4) does not comply with the rules of cross-shareholding imposed by Mexican Energy Regulatory Commission.

Natural Gas Storage Permit

The Company operates its LNG storage facility under a natural gas storage permit granted by the Mexican Energy Regulatory Commission on August 7, 2003. This permit allows the Company to provide LNG storage and regasification services through 2033 and requires that the Company allocate LNG storage and regasification capacity on a non-discriminatory basis and in accordance with open access principles. In addition, the permit requires that operation and maintenance of the storage facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations.

Assignment and transfer of this permit is only allowed if the permit is transferred together with the LNG storage facility. Any modification of the permit requires prior approval by the Mexican Energy Regulatory Commission. The permit is subject to revocation in the event that (1) there is an interruption of storage service without justified cause or without the authorization of the Mexican Energy Regulatory Commission, (2) the Company engages in unduly discriminatory practices or does not comply with the rates authorized by the Mexican Energy Regulatory Commission, (3) the Company assigns, transfers, conveys or modifies the permit in violation of its terms, or (4) the Company does not comply with the obligations set forth in the permit.

In October 2007, the Mexican Energy Regulatory Commission approved the expansion of the terminal's peak send-out capacity to 2,600 MMcfd (27.0 MMThd) and the addition of up to two additional LNG storage tanks. The LNG storage general terms and conditions (as amended from time to time by the Company and approved by the Mexican Energy Regulatory Commission as part of the natural gas storage permit issued by the Mexican Energy Regulatory Commission) require an open season process in the event that the Company wishes to expand the capacity of the terminal.

LPG Storage Permit

The Company operates its LPG storage facility under an "LPG storage permit by supply plant" granted by the Mexican Energy Regulatory Commission on February 13, 2012. This permit has a term of 30 years, through 2042, and allows the Company the receipt of 42,000 Bbl of LPG, the storage of 80,000 Bbls of LPG in its four storage tanks, each with a capacity of 20,000 Bbl, and the delivery of 30,000 Bbl of LPG through ten loading bays.

The LPG storage permit provides that allocation of capacity must be conducted on a non-discriminatory basis and in accordance with open access principles. Assignment and transfer of this permit is only permitted if the permit is transferred together with the LPG storage facility. Any modification of the permit requires prior approval by the Mexican Energy Regulatory Commission. The permit is subject to revocation in the event that (1) there is an interruption of storage service without justified cause or without the authorization of the Mexican Energy Regulatory Commission, (2) the Company engages in unduly discriminatory practices or does not comply with the rates authorized by the Mexican Energy Regulatory Commission, (3) the Company assigns, transfers, conveys or modifies the permit in violation of its terms, or (4) the Company does not comply with the obligations set forth in the permit.

Power Generation Permits

LNG Terminal Power Generation Permit

The Company generates electrical power at its LNG terminal under a self-use power generation permit granted by the Mexican Energy Regulatory Commission on February 2, 2005. This permit allows the Company to engage in power generation activities at the terminal for an indefinite term for its own use or for the use of its self-sufficient partners. In addition, the permit requires that operation and maintenance of the power generation facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable regulations.

Assignment and transfer of this permit is only allowed if the permit is transferred together with the power generation facility and the Mexican Energy Regulatory Commission has previously approved the transfer. The permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for selling, reselling, or in any other way transferring the electricity generated in violation of the permit, (2) generates electricity in violation of the conditions established in the permit, (3) makes an assignment, transfer or modification to the permit without the authorization of the Mexican Energy Regulatory Commission, or (4) otherwise fails to comply with the terms and conditions of the permit.

In July 2017, the Mexican Energy Regulatory Commission approved a power generation permit with capacity 227.612 MW for its potential Energía Costa Azul liquefaction project. This permit has a term of 30 years and expires in 2047. The permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for selling, reselling, or in any other way transferring the electricity generated in violation of the permit, (2) generates electricity in violation of the conditions established in the permit, (3) makes an assignment, transfer or modification to the permit without the authorization of the Mexican Energy Regulatory Commission, or (4) does not comply with the terms and conditions of the permit.

Termoeléctrica de Mexicali Permits

The Company's Termoeléctrica de Mexicali power plant holds two-way electric power permits issued by the Mexican Energy Regulatory Commission. Under the first of these, the Company is able to produce and export up to 679.7 MW of electric power to the United States, and the term of the permit runs through August 2031. In June 2001 the Company also received a permit to import 12.0 MW of electricity from the United States to power the generation station, for an indefinite term. The export permit requires that operation and maintenance of the power generation facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable regulations.

Assignment, transfer or modification of either of these permits requires previous approval from the Mexican Energy Regulatory Commission. Additionally, with respect to its export permit, its assignment or transfer is only permitted if the permit is transferred together with the power generation facility.

The permits are subject to revocation in the event that the Company: (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for impermissibly selling, reselling, or in any other way transferring the electricity generated or the generation capacity or importing electric energy in violation of applicable law or its permits, (2) assigns, transfers or modifies either permit without the authorization of the Mexican Energy Regulatory Commission and without following the requirements provided in the permit to that effect, or (3) seriously, repeatedly or continuously fails to comply with the legal terms and conditions of applicable law or its permits, Mexican Official Standards or applicable technical and operational specifications.

Energía Sierra Juárez Permits

The Company's Energía Sierra Juárez wind power generation facility is scheduled to be developed in phases over several years. The first phase commenced operation in June of 2015. It was constructed under an environmental impact authorization that was granted for all phases of the project and an initial change of forestry to industrial use of land permit , which was granted for the first phase (for an area of 171.8 hectares). Both permits were granted by SEMARNAT. In addition, the Company obtained a state environmental impact authorization specifically for the opening and conditioning of access roads to the project.

The SEMARNAT environmental impact authorization covers a wind generation project up to 1,200 MW and the removal of 5,120 hectares of forest and forest-like vegetation. It was issued in July 2010, and it has a 20- year term for the site preparation and project construction and a 60-year term for the operational stage.

The wind power generation facility is operated under two electric power permits granted in June 2012 by the Mexican Energy Regulatory Commission: (1) an electric energy import permit that allows the import of electric power to Mexico from the United States exclusively to cover the needs of the wind power generation facility, with an indefinite term; and (2) an electric energy export permit that enables the Company to produce electric power under an IPP scheme with an installed capacity of 155 MW for a 30-year term, subject to renewals under certain conditions. Under these permits, electricity is imported and exported through a transmission line interconnected with San Diego Gas & Electric Company's East County substation. Assignment or transfer of these permits requires the prior approval of the Mexican Energy Regulatory Commission. Further phases of the project will also require Mexican Energy Regulatory Commission permits for the power to be generated and sold pursuant to such phases.

The permits are subject to termination in the event that the Company: (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for impermissibly selling, reselling, or in any other way transferring the power capacity or electricity in violation of applicable laws or its permits, (2) assigns, transfers or modifies the permits without the prior authorization of the Mexican Energy Regulatory Commission, (3) repeatedly fails to make payments of governmental charges regarding supervision services related to these permits, or (4) seriously, repeatedly or continuously fails to comply with applicable law, Mexican Official Standards or applicable technical and operational specifications.

Ventika Permits

The Ventika wind power generation facilities have 20 year self-supply permits granted pursuant to the Mexican Electric Power Public Utility Law for alternative energy generation. Under the terms of the Mexican Electric Industry Law, the Ventika self-supply permits remain governed by the current Mexican Electric Power Public Utility Law, and therefore, allow the Company to enter into "grandfathered" interconnection contracts for up to 20 years. In addition, these permits grant various benefits that may not be available to holders of permits granted under the Mexican Electric Industry Law, such as fixed transmission and distribution tariffs and saving excess energy for future sales, among others. Self-supply permits granted pursuant to the Mexican Electric Power Public Utility Law, such as those granted to Ventika I and Ventika II, are no longer available from the Mexican Energy Regulatory Commission.

Renewable Power Generation Permits

During 2017, the Mexican Energy Regulatory Commission approved the power generation permits of the 41 MW_{AC} Rumorosa Solar project, the 100 MW_{AC} Tepezalá Solar project and the 110 MW_{AC} Pima Solar project. These permits are valid for 30 years and are renewable. The permits are subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for the generation of electricity in violation of the conditions established in the permit, (2) makes an assignment, transfer or modification to the permit without the authorization of the Mexican Energy Regulatory Commission, (3) fails to operate in a manner consistent with the efficient operation of the National Electricity System or the wholesale electricity market or (4) does not comply with the terms and conditions of the permit.

Environmental Matters

Environmental Regulations

The Company's Mexican operations are subject to federal, state and local environmental authorities, laws, regulations, Mexican Official Standards and other technical standards. The distribution of jurisdiction over environmental matters among governmental authorities at the federal, state and municipal levels is based on a "residual formula" provided in the Mexican Constitution that establishes that matters not expressly reserved to the Mexican Federal government fall under the jurisdiction of the local governments, referred to as concurrent jurisdiction. While energy projects mainly fall under the jurisdiction of the Mexican Federal government, some specific environmental matters that may fall under state or municipal jurisdiciton such as (1) the handling or special management of urban solid wastes, and (2) the opening of new access roads, (3) land use and (4) construction.

The primary federal environmental laws in Mexico applicable to the Company's business are: the Mexican General Law on Ecological Equilibrium and Environmental Protection, the Mexican General Law for the Prevention and Comprehensive Management of Wastes (*Ley General para la Prevención y Gestión Integral de los Residuos*), the Mexican National Waters Law (*Ley de Aguas Nacionales*), the Mexican General Law for Sustainable Forestry Development (*Ley General de Desarrollo Forestal Sustentable*), the Mexican Federal Environmental Liability Law (*Ley Federal de Responsabilidad Ambiental*), the Mexican General Law of National Assets (*Ley General de Bienes Nacionales*) and the Mexican General Law on Climate Change (*Ley General de Cambio Climático*). Pursuant to these laws, rules and regulations have been issued concerning matters such as environmental impact and risk matters, forestry land use change, noise emissions, air emissions, water extraction and wastewater discharge, and waste management, to which the Company's businesses are also subject. The Company's businesses may also be subject to other laws, regulations and technical requirements relating to environmental protection such as the Mexican General Health Law (*Ley General de Salud*) and the Mexican Federal Regulations on Safety, Hygiene and Work Environment (*Reglamento Federal de Seguridad, Higiene y Medio Ambiente en el Trabajo*).

Non-compliance with the applicable environmental laws, regulations and Mexican Official Standards may result in the imposition of administrative fines or sanctions; revocations of authorizations, concessions, licenses, permits or registries; administrative arrests; seizure of polluting equipment; and in certain cases, temporary or permanent closure of facilities and even imprisonment (when environmental violations are classified as criminal offenses) as well as in remediation, reparation or compensation obligations in matters of civil or environmental liability.

The Company's projects operate under licenses, permits, authorizations, concessions and registrations issued under these environmental laws. The Company believes that it has all material permits, licenses, registrations, concessions and/or authorizations for the facilities and projects that it operates, and that it is in substantial compliance with applicable environmental laws and the respective permits. There are currently no material legal or administrative proceedings pending against the Company with respect to any environmental matters, except for the matters described in "Business-Legal, Administrative and Arbitration Proceedings-LNG Terminal-Matters Challenging LNG Terminal Permits and Authorizations" and "Business-Legal, Administrative and Arbitration Proceedings-Energía Sierra Juárez."

The Company follows internal policies and procedures to ensure compliance with applicable laws, regulations and its permits. From time to time the Company updates its permits, authorizations, licenses, concessions and registrations and make periodic assessments in connection with their validity, including the amendment, renewal, extension or termination of such permits. In the event that as a result of such assessments any action is needed to renew, maintain, transfer or obtain any permit, authorization, license or approval, the Company undertakes the necessary actions to maintain the effectiveness thereof.

Regulatory and Supervising Authorities

SEMARNAT is the primary federal environmental agency responsible for environmental policies and management and is empowered, among other things, to (1) grant federal environmental impact and risk authorizations, (2) grant federal air emissions licenses and (3) to issue Mexican Official Environmental Standards (*Normas Oficiales Mexicanas*). ASEA has recently become the key environmental, industrial, and operational safety regulator in the oil and gas sector.

There are administrative departments within SEMARNAT (that are dependent on SEMARNAT and act on its behalf), and two decentralized administrative departments (with legal standing and economic autonomy from SEMARNAT, but under the coordination of SEMARNAT), which oversee specific areas of environmental law. The Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*, or PROFEPA), is the enforcement branch of the SEMARNAT, while ASEA has been entrusted with this authority in the hydrocarbons sector. PROFEPA is responsible for investigating and verifying facilities (including through the voluntary environmental audit program described below), imposing sanctions, and presiding over administrative appeals filed by persons who have been sanctioned for failure to comply with the law. ASEA has the function of inspecting and imposing sanctions related to the matters regulated by such agency.

The Mexican National Water Commission (*Comisión Nacional del Agua*) is in charge of the management and administration of national waters, both surface and underground, the prevention of water pollution, and the use and protection of certain national assets related to rivers, dams and other bodies of water. The Mexican National Water Commission grants concessions for the use and exploitation of national waters and permits for wastewater discharges into federal receptor water-bodies. The Mexican National Water Commission has its own enforcement department, independent of PROFEPA; however, PROFEPA also has administrative functions enacted by law to verify matters related to national waters.

Environmental Certifications, Policies and Programs

Clean Industry or Environmental Quality Certifications

Several of the businesses in its Gas and Power Segments participate in voluntary environmental audit programs sponsored by the Mexican Environmental Protection Enforcement Agency and ASEA, and these businesses currently hold clean industry certificates. The Company's goal is for all of its other businesses to participate in this program and obtain the corresponding certificates.

As part of these voluntary environmental audit programs, companies agree to conduct biannual environmental audits of their own facilities and operations through an authorized third party consultant. Based on the audit findings, the consultant prepares and proposes to the company a corrective and/or improvement action plan, and depending on the certification process, advises the Mexican Environmental Protection Enforcement Agency or ASEA, as the case may be, on the results of the audit and the appropriateness of the resulting action plan. Subject to its review and approval of the audit findings and recommendations, the Mexican Environmental Protection Enforcement Agency or ASEA, as the case may be, enters into an agreement with the audited company for the implementation of the action plan.

A clean industry or an environmental quality certificate is the end product of this voluntary environmental audit program, which generally shows that the company or business has complied with the action plan and is in compliance with applicable federal and local environmental laws and regulations, and in some cases with international standards and prudent engineering and operational practices for the relevant business. The certificate is valid for a two-year period and can be continuously renewed for similar periods as long as the company continues to prove that it has maintained or improved the environmental compliance conditions present at the time when the certificate was first awarded.

Corporate Environmental Policies

The Company conducts its business in compliance with its Corporate Environmental Policy. This policy is communicated to its employees and contractors and applied in new projects and the operation and maintenance of its facilities and processes. The Company intends to continue following this or similar policies in the future. The commitments stated in this policy include:

- minimizing and controlling the environmental impact from its operations and the services provided by us;
- sustainably managing its resources and constantly monitoring its operations and environmental management;
- optimizing and reviewing its environmental performance report on its consumption of water, fuels and energy, conforming to its objectives and environmental goals, which are verified on an annual basis; and
- complying with applicable environmental laws, regulations and norms and the best practices in the industry.

The Company often imposes internal standards beyond Mexican regulatory requirements on its operations.

Environmental Programs for the Conservation of Biodiversity

The Company has several ongoing environmental programs to conserve biodiversity as well as construction projects and operations that are focused on conservation, protection and restoration of species of flora and fauna.

The Company does not believe that it will incur material costs and liabilities related to environmental matters with respect to its current projects, based on its existing clean industry certificates, the implementation of its corporate environmental policies and ongoing compliance monitoring programs. However, the Company cannot assure that future costs and liabilities associated with its projects could not have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

vi) Human Resources

EMPLOYEES

As of December 31, 2017, 2016 and 2015, the Company had 930, 883 and 639 employees, respectively, of which 3.8%, 3.5% and 5.8%, respectively, were unionized. The following sets forth the Company's number of full-time employees by type of activity and business segment:

	2017	2016	2015
Activity			
Management	151	135	82
Operations	685	589	485
Construction and engineering	94	159	72
Business Segment			
Gas(1)	663	660	478
Power(2)	44	49	58
Corporate	223	174	103
Total employees	**930**	**883**	**639**

(1) For the year ended December 31, 2015, the number excludes the 189 employees employed by the Company's joint venture with Pemex TRI.

(2) For the years ended December 31, 2017, 2016 and 2015, the number includes, respectively, the 12, 12 and 17 employees employed by the Company's joint venture with InterGen.

For the year ended December 31 2017, headcount of the Company increased to 930 employees, compared to 883 employees as of December 31, 2016, mainly due to projects under development.

For the year ended December 31, 2016, headcount of the Company increased to 883 employees, compared to 639 employees as of December 31, 2015, mainly due to the acquisition of the remaining 50% equity interest in Gasoductos de Chihuahua and to the Company's operational growth.

Collective Bargaining Agreements

The Company has in place collective bargaining agreements with various labor unions. The collective bargaining agreements are negotiated on a facility-by-facility basis. The compensation terms under these agreements are adjusted on an annual basis, whereas all other terms are renegotiated every two years. The Company has not experienced any significant labor disruptions with its workforce. The Company believes that its relationships with labor unions are satisfactory.

vii) Environmental Performance

See "Legal Framework and Taxation - Environmental Matters."

INDUSTRY OVERVIEW

viii) Market Information

General

In Mexico, the natural gas and power sectors are highly regulated and have a high level of participation by the Mexican government. In the power sector, the Mexican government owns 100% of the Mexican Federal Electricity Commission, which until recently was a decentralized entity of the federal government. The Mexican Federal Electricity Commission is responsible for the planning of the Mexican power grid as well as the generation, transmission, distribution and sale of energy. In the natural gas sector, the government owns 100% of Pemex and its subsidiaries, including Pemex TRI, which until recently was also a decentralized entity of the federal government. Pemex TRI is responsible for the exploration and production of petroleum and other hydrocarbons, among other activities. Legislative changes in Mexico in the 1990s in both the natural gas and power sectors created significant investment opportunities for the private sector. In December 2013, a new and substantial legislative change occurred as a result of amendments to the Mexican Constitution. The reform created a new legal framework for the oil, gas and electric power industries in Mexico. The main objectives of the reform were to open the oil, gas and power sectors in Mexico to private investment. Both Pemex and the Mexican Federal Electricity Commission will continue to play a key role in the natural gas and electric power sectors as state productive enterprises (*empresas productivas del Estado*), owned and controlled by the federal government, with entrepreneurial, commercial and financial objectives.

The Mexican Natural Gas Industry

Prior to the recent energy reform, natural gas production was carried out exclusively by the Mexican government through Pemex and its subsidiaries. The deregulation of the natural gas industry started in 1995, when changes to Mexican law allowed private sector participation in the midstream (transportation and storage) and downstream (distribution) natural gas sectors. The National Pipeline System (*Sistema Nacional de Gasoductos*) still holds a dominant position in the market through the newly created Centro Nacional de Control Del Gas Natural or CENAGAS. The recently enacted energy reform allows private sector entities to store, transport, distribute, market and carry out direct sales of natural gas, as well as to operate pipelines and liquefaction, regasification, compression and de-compression stations or terminals.

According to the Natural Gas Prospect (2017-2031) published by the Mexican Ministry of Energy, private investment in the natural gas sector is comprised as follows:

- 57 active permits for open-access transportation systems;
- 23 distribution companies; and
- 3 LNG import terminals.

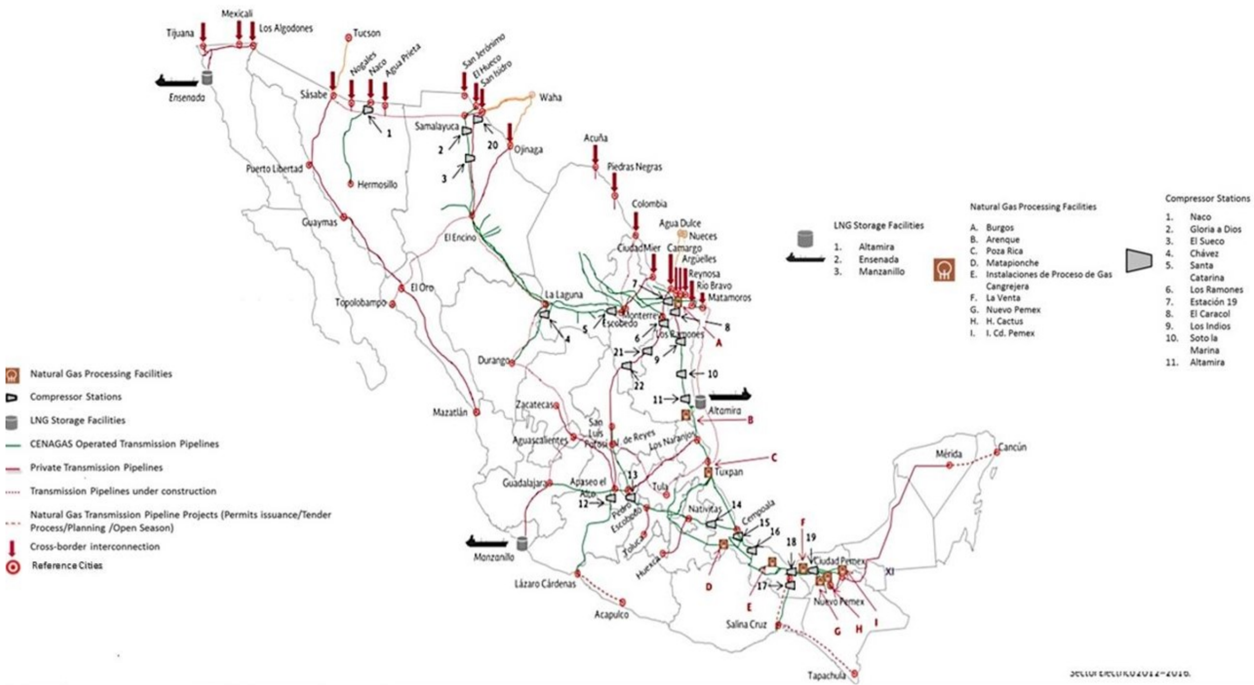
In addition, as a result of the auction rounds organized by the National Hydrocarbons Commission (“CNH”), several private companies have been awarded contracts for the exploration and extraction of hydrocarbons.

As a consequence of the environmental and economic advantages of natural gas over other energy alternatives, demand for natural gas in Mexico has increased significantly, mainly due to the increased usage of natural gas by the Mexican Federal Electricity Commission and Independent Power Producers (“IPPs”). In addition, these advantages have led to an increase in consumption of natural gas in other industries, where it is a less expensive and more efficient alternative to other fuels. The Ministry of Energy estimates that by the end of 2018, approximately 18,700 km of natural gas transportation infrastructure will be in operation.

Transportation

Current logistics lag transportation and storage infrastructure, creating a challenge for the implementation of the Energy Reform. The current pipeline network is completely saturated and vulnerable to short term fluctuations in supply. The need for significant investment in infrastructure will most likely encourage the Mexican government to boost private investment to develop a competitive market.

The following map shows Mexico's current natural gas infrastructure.



Source: SENER, Statistic compendium December 2017.

In 2017, the Ministry of Energy presented the second annual review to the 2015-2019 Five Year Plan for Expansion of the National Integrated Natural Gas Transport and Storage Systems. This review confirmed the validity of the initial projects, according to the natural gas market evolution.

According to the second review, the seven projects awarded by CFE and included in the Five Year Plan are still valid: (i) Tuxpan - Tula; (ii) La Laguna - Aguascalientes; (iii) Tula - Villa de Reyes; (iv) Villa de Reyes - Aguascalientes - Guadalajara; (v) San Isidro - Samalayuca; (vi) Samalayuca - Sásabe and (vii) South of Texas - Tuxpan.

With respect to the Jáltipan - Salina Cruz pipeline, the bid was deferred from the 2017 - 2018 period and the start of operations of this pipeline was deferred to 2020 - 2022. With respect to the Lázaro Cardenas - Acapulco pipeline, the development features for this project are still under analysis; for that reason the bid was deferred to the 2017 - 2019 period and the start of operations was deferred to the 2020 - 2022 period. The start of operations for Los Ramones - Cempoala was also deferred to 2020 - 2024.

CHART 3. 6. INFRASTRUCTURE PROJECTS INCLUDED IN 2015 – 2019 FIVE YEAR PLAN

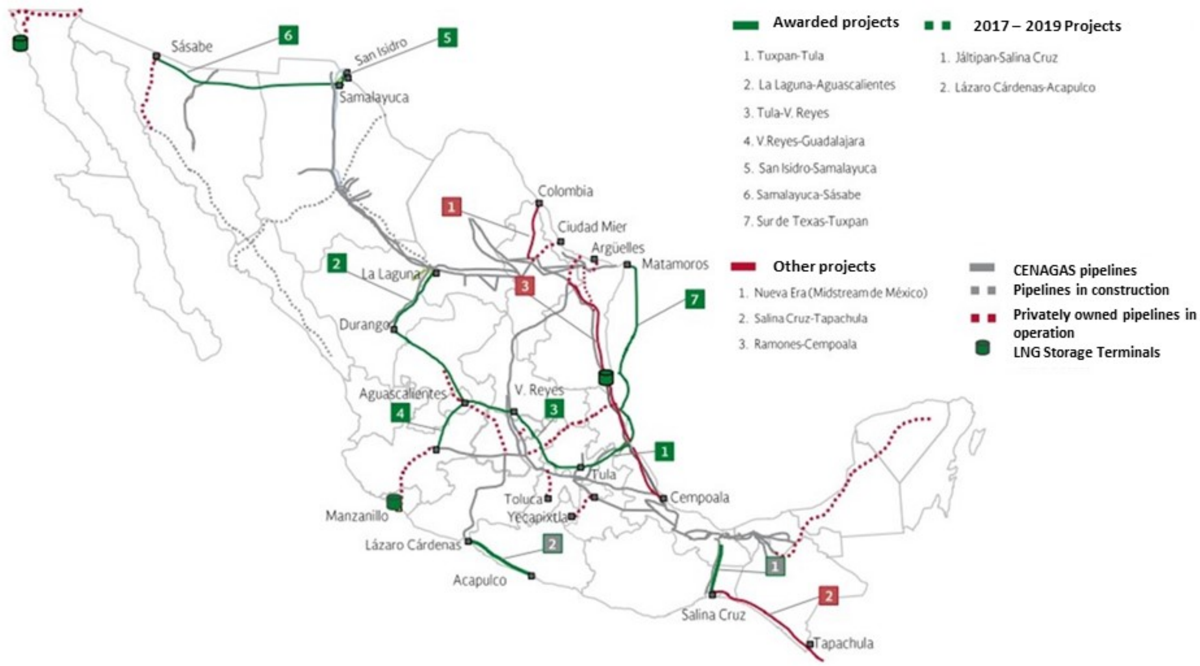
#	Awarded projects included in 2015 – 2019 Five Year Plan	Beneficiary States	Length* (km)	Est. Investment (USD millions)*	Award date	Start of operations
1	Tuxpan -Tula	Hidalgo, Puebla y Veracruz	283	458	2015	2017
2	La Laguna -Aguascalientes	Aguascalientes, Durango y Zacatecas	600	473	2016	2018
3	Tula -Villa de Reyes	Hidalgo y San Luis Potosí	420	554	2015	2018
4	Villa de Reyes - Guadalajara	Aguascalientes, Jalisco y San Luis Potosí	305	294	2016	2018
5	San Isidros -Samalayuca	Chihuahua	23	109	2015	2017
6	Samalayuca - Sásabe	Chihuahua y Sonora	650	571	2015	2017
7	Sur de Texas-Tuxpan	Tamaulipas y Veracruz	800	2,111	2016	2018
#	**Projects to be bid**	**Beneficiary States**	**Length* (km)**	**Est. Investment (USD millions)***	**Estimated Award date**	**Start of operations**
8	Jáltipan-Salina Cruz	Oaxaca y Veracruz	247	643	2017-2018	2020-2022
9	Lázaro Cárdenas -Acapulco	Guerrero y Michoacán	331	456	2017-2019	2020-2022
#	**Other projects**	**Beneficiary States**	**Length (km)**	**Est. Investment (USD millions)***	**Estimated Award date**	**Start of operations**
10	Nueva Era (Midstream México)	Nuevo León	302****	n.d.	Development under own account and risk	2017****
11	Salina Cruz-Tapachula	Chiapas y Oaxaca	400***	442**		2019
12	Los Ramones-Cempoala	Nuevo León y Veracruz	855**	1980**	According to 2020 – 2024 Plan	

* According to the public information issued by CFE
** Initially considered in the 2015 – 2019 Five Year Plan
*** Length manifested by TAG Pipelines, S. de R.L. de C.V.
**** According to the public information issued by Howard Energy (Midstream México)

Source: Second review to the 2015 – 2019 Five Year Plan for Expansion of the National Integrated Natural Gas Transport and Storage Systems.

Infrastructure projects considered in the 2015 - 2019 Five Year Plan.

The following map shows the location of the transportation projects listed in the previous table:



Source: SENER / CENAGAS. 2015 – 2019 Five Year Plan for Expansion of the National Integrated Natural Gas Transport and Storage Systems.

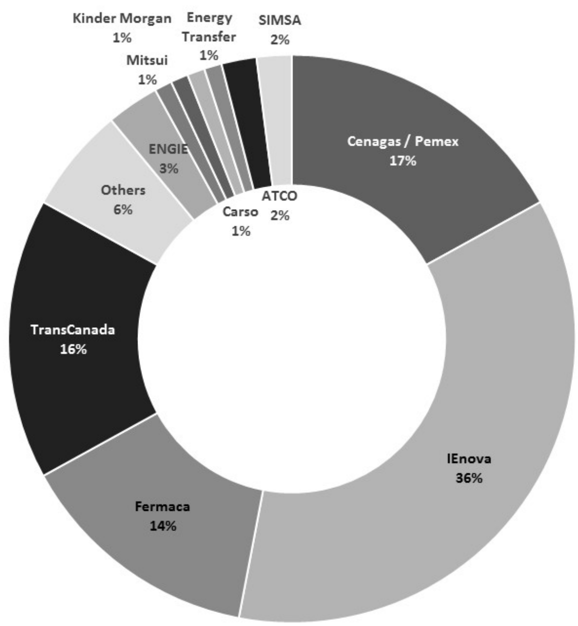
Open-Access Pipeline Transportation Projects

The present National Pipeline System in Mexico will need expansion to meet the nation’s growing demand and to achieve a solid and extensive pipeline network by 2019, capable of providing transportation capacity between points of supply and end users. The Company is actively involved in the Mexican pipeline sector with an estimated 36% market share in the pipeline market as of October 2017.

The gas pipeline network in Mexico comprises approximately 18,994.4 km of open-access transportation pipelines and 67,918 kilometers of distribution pipelines. The Mexican natural gas pipeline market is concentrated in a few key companies. The four largest transportation companies control over 80% of the market.

The following graph shows the market share in the open-access pipeline transportation sector.

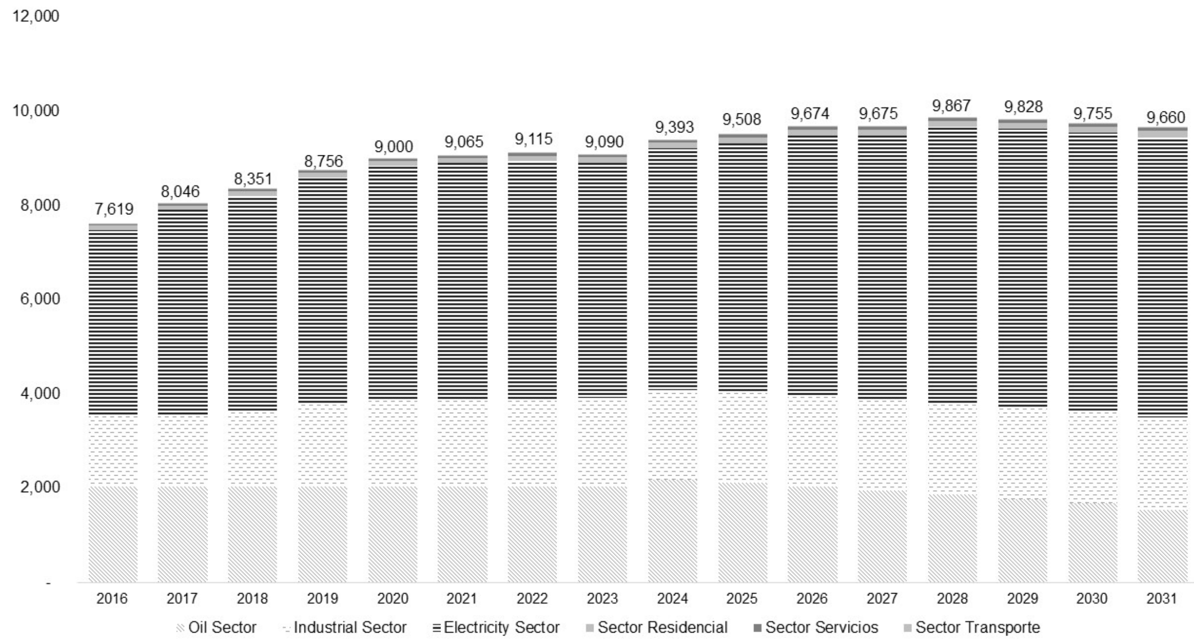
Open-access natural gas pipeline transportation
Market Share
(MMcfd)



Source: Mexican Energy Regulatory Commission.

Currently, these open-access transportation pipelines transport natural gas to the CFE, independent power producers (IPP's), industrial customers, distribution zones and Pemex. As noted above, natural gas demand has increased substantially in Mexico due to the shift to natural-gas-fired combined-cycle technology for power generation, among other factors. With these projects, the length of the system is expected to increase from 14,000 km in 2014 to 21,361 in 2022.

Natural Gas Demand in Mexico, 2016 – 2031
(MMcfd)



Source: Mexican Energy Ministry, Natural Gas Market Outlook 2017-2031.

Mexico has no storage capacity for natural gas, with the exception of that associated with LNG import and regasification projects. Natural gas storage developers must apply for natural gas storage permits from the Mexican Energy Regulatory Commission. Growing demand is expected to cause an increase in capacity of fuel supply. As of today, the pipeline network has less than seven days' worth of inventory across the country. The Ministry of Energy's revised storage policy will require up to 15 days of minimum inventory for key regions, which will require a significant increase in Mexico's current infrastructure.

Determining the type of storage facility represents a challenge. The use of exhausted fields has been problematic due to the existence of residual hydrocarbons that can mix with stored natural gas, generating problems with quantification and the legality of the "extraction." Fields of non-hydrocarbon resources provide a simpler alternative.

LNG Storage and Regasification Facilities

The substantial rise in demand for natural gas from the CFE and Independent Power Producers has contributed to the increase in total natural gas demand of 3,879 MMcfd, which represents an increase of 8.5% compared to 2014. Demand is expected to grow at a 1.2% compound annual growth rate (CAGR) from 2015 to 2030, growing from 7,504 MMcfd in 2015 to 9,030 MMcfd in 2030. Domestic demand has outpaced domestic production, resulting in increased natural gas imports.

In addition to the imports from cross-border pipelines, imports of LNG have helped satisfy the growing demand for natural gas. Three LNG regassification terminals have been granted the required permits since September 2003, when the Energy Regulatory Commission first issued the technical regulations pertaining to LNG storage and regasification plants. The Company owns around 50% of the capacity of all companies in the LNG regasification sector as of December 2017.

LNG storage and regasification terminals

Plant	Location	Status	Owners	Beginning of operations	Regasification nominal capacity (MMcfd)
Altamira LNG Terminal	Altamira, Tamaulipas	In operation	*Vopak* and *Energas*	2006	670 - 1,119
Energía Costa Azul	Ensenada, Baja California	In operation	*IEnova*	2008	1,000 - 1,300
KMS LNG storage terminal	Manzanillo, Colima	In operation	*KoGas, Mitsui and Samsung*	2012	500

Source: *Energy Regulatory Commission.*

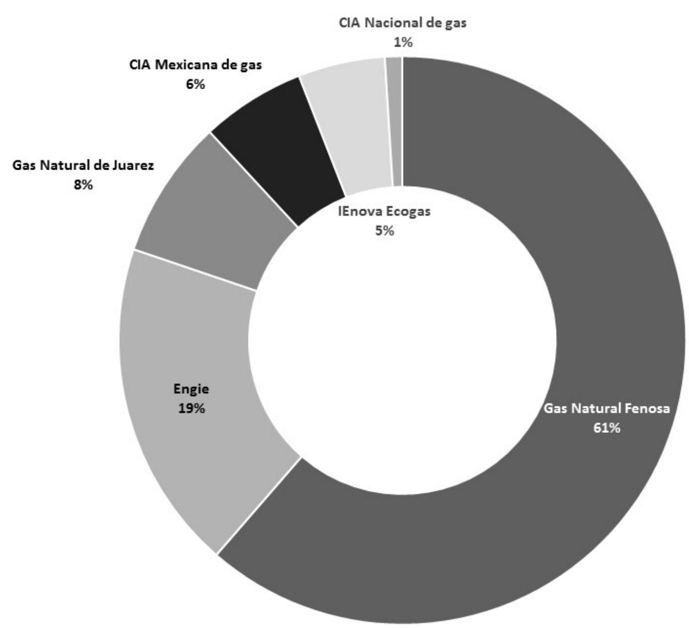
Natural Gas Distribution Business

By the end of 2016, the Energy Regulatory Commission had recorded twenty-three permits for the development of distribution systems in Mexico.

Market shares for the natural gas distribution sector are shown in the chart below, based on the number of customers served by each network as of December 2015. The two top companies control approximately 81% of the total natural gas distribution market.

Natural Gas Distribution, by number of customers

(December 2015)



Source: 2014 - 2015 Regulation Handbook of the Mexican Association of Natural Gas.

Natural Gas Marketing

In July 2016, the Ministry of Energy published the Public Policy for the Implementation of the Natural Gas Market, which aims to encourage market development, contribute to the country's energy security and maintain continuity of supply in order to achieve a competitive natural gas market by 2018. As part of the new policy, Pemex will have to reduce its market share in the next four years, to 30%, in order to limit its dominant position and allow for other marketers to compete effectively. The Energy Regulatory Commission implemented Pemex's Gas release program with the strategic goal of releasing 70% of Pemex's current contracts to the market. The contracts will be released in three phases. The first phase, completed in 2017, released 20% of Pemex' gas contracts to marketers.

The Energy Regulatory Commission has achieved important advances in the implementation of a permanent scheme for the sale of natural gas. The scheme is expected to allow all natural gas players to purchase natural gas directly from the Pemex processing plant or at cross-border import points, thereby ending the lengthy transitional scheme in which the majority of consumers (except for IPPs) had to purchase natural gas and related transportation services through Pemex TRI. Pursuant to the new Hydrocarbons Law, the Energy Regulatory Commission will issue marketing permits for the sale of natural gas.

Transportation of Liquid Petroleum Products

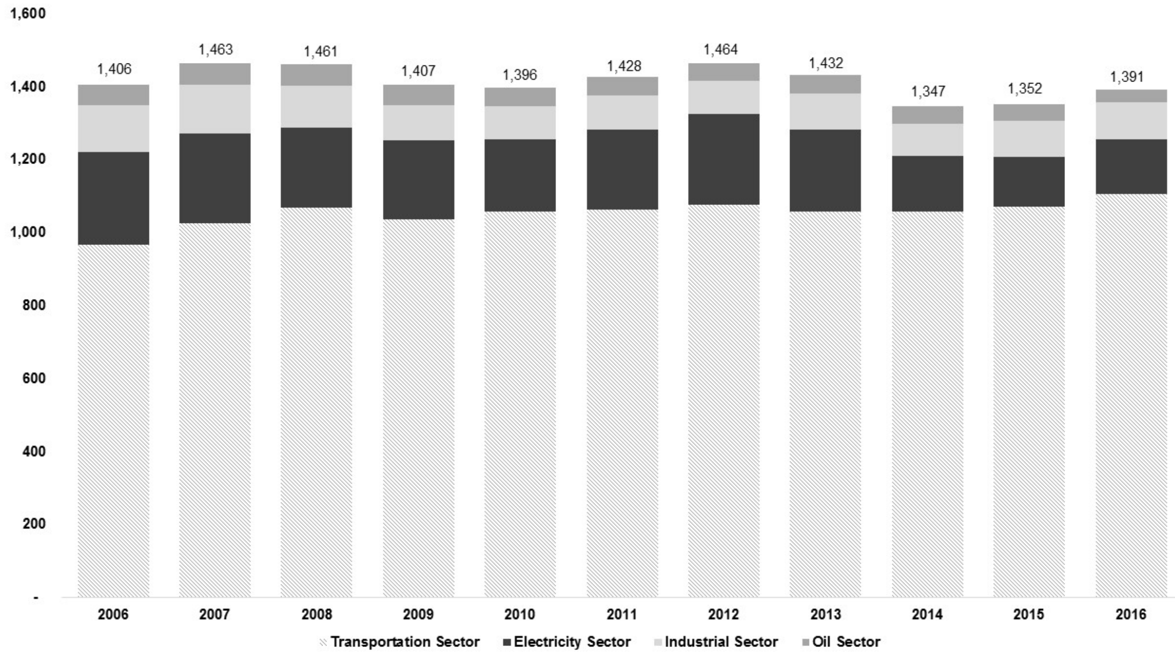
Despite the growing demand for refined products throughout the country, Mexico lacks efficient transportation, distribution and storage infrastructure for liquid petroleum products. While trucks and ships continue to provide a significant percentage of refined petroleum transportation, there are increasing opportunities to provide more efficient transportation to reach growing demand at consumption centers. According to the Ministry of Energy Oil and Refined Products Prospect 2017-2031, from 2017 to 2031, the demand for gasoline and diesel for the auto transport sector will grow at a CAGR of 1.4% and 2.3%, respectively. This scenario represents a potential investment opportunity in liquid petroleum transportation and storage infrastructure.

Before the recent energy reform, Pemex had exclusivity on certain activities such as processing, storage, transportation, distribution and marketing of petroleum products.

The energy reform allows private sector participation in the construction and operation of oil product storage and transportation facilities. As the liberalization of refined products prices and imports continues gradually through 2018, the Company expects that suppliers and distributors of new refined products will require additional infrastructure to satisfy the demands of consumers. This trend has become evident in 2017, as international refining and marketing companies have made announcements about beginning direct sales to consumers in several regions, with brands that are new to Mexican fuel consumers.

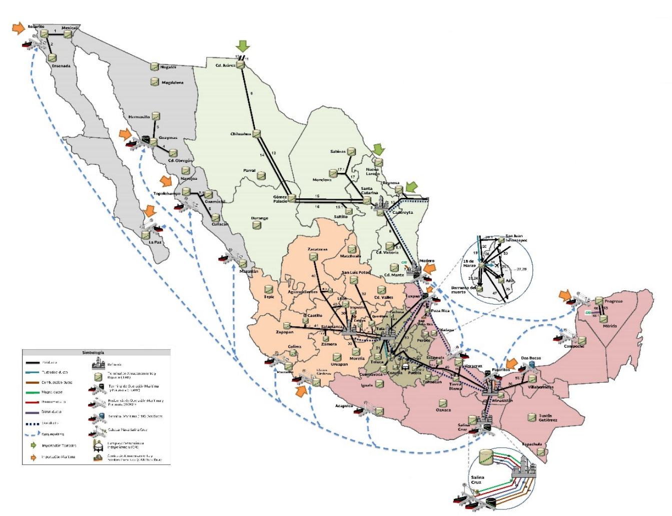
Liberalization of gasoline and diesel prices began during 2016, and was completed in January 2018. The price of LPG was fully liberalized in January 2017.

Liquid Petroleum Products: Demand 2006 - 2016



Source: Energy Ministry, Oil and Refined Product Prospects 2017 - 2031.

The following map shows existing national petroleum infrastructure.



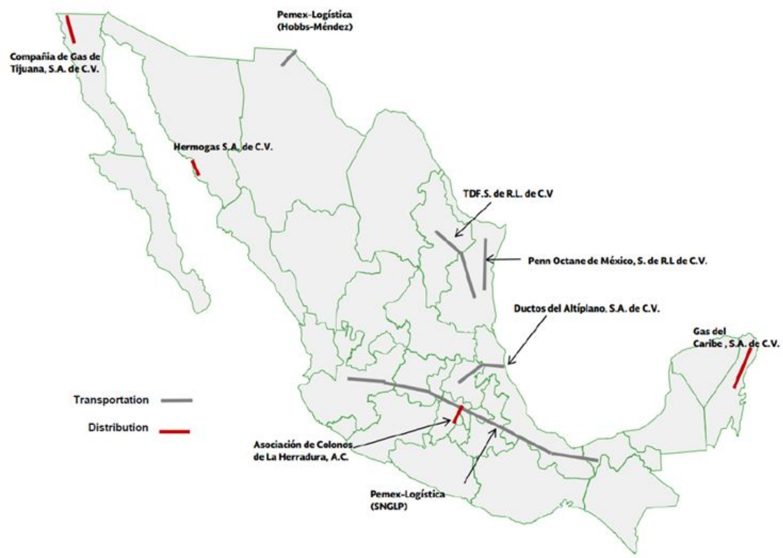
Source: Energy Ministry and PEMEX, 2015.

LPG Market

Current Mexican regulations allow private-sector investment in LPG transportation, distribution and storage. The distribution market is dominated by a very small group of participants, with substantial entry barriers.

Overall, the Company believes the LPG sector will likely require greater efficiency (or greater capacity at current efficiency levels) in order to supply the growing energy demand in Mexico. LPG transportation and storage infrastructure are two of the areas in need of modernization, given the inefficient extended truck transportation system widely used today. Given the current state of Mexico's LPG transportation and storage infrastructure and future expected market conditions, the Company believes it is necessary to develop a strategy for increasing the transportation and storage capacity in southeastern Mexico and in the largest consumption centers, to ensure an adequate supply of LPG and achieve increased transportation flexibility.

The following map shows LPG transportation and distribution infrastructure:



Source: Energy Ministry, *Natural Gas and LPG Prospect 2016-2030.*

The Mexican Power Generation Sector

Before energy reform, private participation was permitted only in non-public service activities, such as IPP and self-supply. As a result of Mexican energy reform, the private sector in Mexico, subject to certain regulations, is allowed to participate in most of the electricity industry production chain. The private sector can participate in the construction and operation of power plants and compete with the Mexican Federal Electricity Commission in the wholesale market. Although transmission and distribution of electric energy will be controlled by the Mexican state, the private sector can participate in these activities through service contracts. Electricity retail (for small and medium size customers) will remain an activity exclusive to the Mexican Federal Electricity Commission, while qualified users (large customers with more than 1 MW of demand) may purchase electric energy from any power generator through a regulated wholesale electric market.

The following map shows potential opportunities for participation in the new electric energy transmission projects contemplated by the National Electric Energy Development Program (PRODESEN) or under study by both the Ministry of Energy and the National Energy Control Center (CENACE):

Electricity Transmission relevant projects

Source: PRODESEN SENER / CENACE

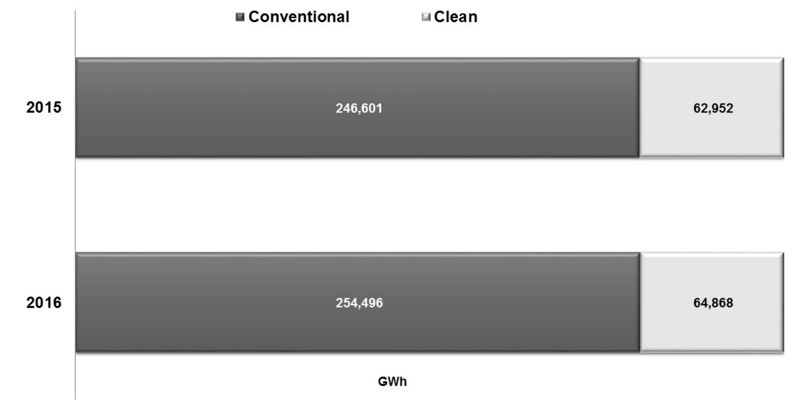
Following the successful award of several constructions, lease and transfer contracts in the mid-nineties, in 1997 sundry legislative reforms were approved, allowing the CFE to call for bids on independent production plant projects. Beginning with the nationalization of the electric energy industry in 1960, and until the legislative reforms of 1992, the CFE was the only authority authorized to generate electric energy in Mexico.

The reforms of 1992 allowed the Independent Power Producers to participate in the construction, financing, operation, ownership and maintenance of electric energy generation plants, which had to meet certain technical and quality requirements. The energy generated by the Independent Power Producers is intended exclusively for sale to the CFE under long-term, fixed-price electricity generation contracts.

At the end of December 2016, total electricity generation was 319 GWh, 3.2% higher than the previous year. Similar growth was seen in conventional energy (3.2%) and in clean energy (3%), which was mainly due to wind generation growth (19.6%) and solar (104.6%). From the total generation infrastructure, 54.6% were owned by CFE, 17.6% were private parties and the remaining was Independent Power Producers (27.8%).

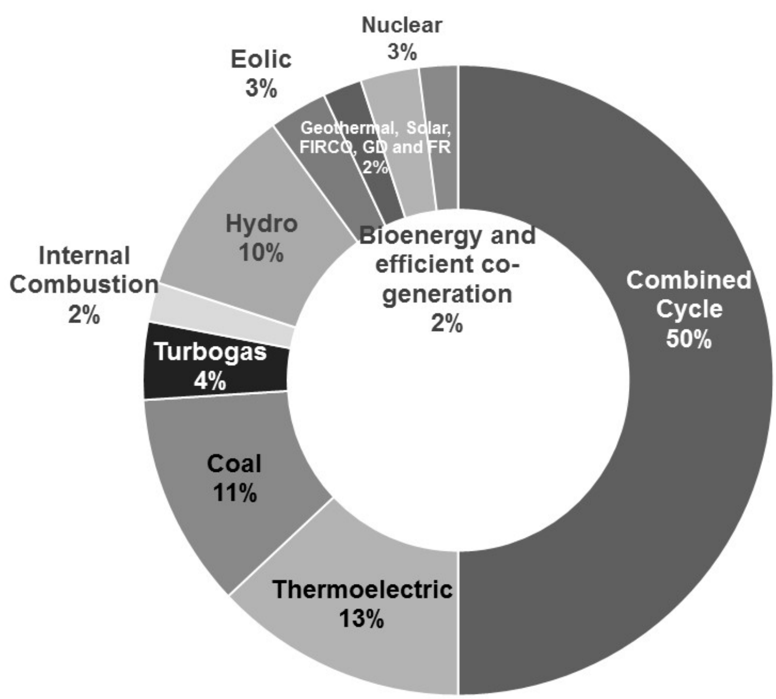
At the end of 2017, the Energy Regulatory Commission had 1,318 energy generation permits. Of these, 864 permits were granted under the former law and 445 under the new law (163 of CFE), which depicts the attractiveness of the Mexican electricity market. Increasing power generation capacity has also attracted investment in transmission lines and substations.

The following charts depict the generation of electric energy by the CFE by type of technology in 2015 and 2016:



Source: SENER, with information provided by CFE, CRE, CENACE and Planning and Energy Transition undersecretary. 2016 preliminary information.

The following chart illustrates power production by type of technology in 2016.



Turbogas includes mobile plants. GD: includes wind, solar and hybrid bioenergy distributed generation. FIRCO: Shared risk trust. FR: regenerative brakes. Source: SENER, with information provided by CFE, CRE, CENACE and Planning and Energy Transition undersecretary. 2016 preliminary information.

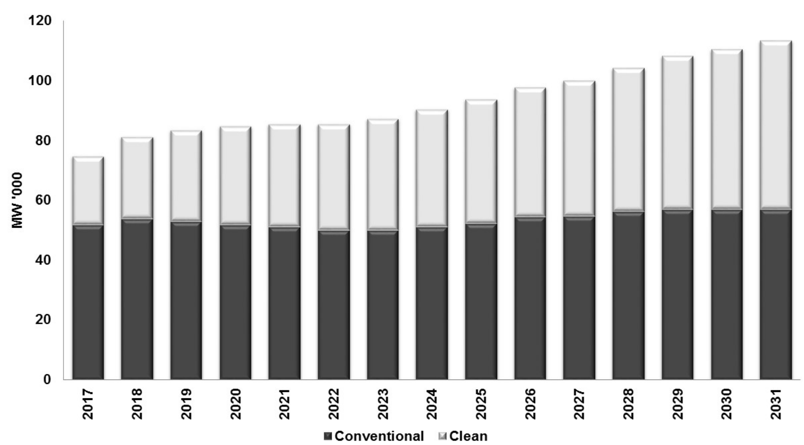
Prior to energy reform, besides the Independent Energy Producer program, private industry could participate in cogeneration, self-supply, imports, exports and low-level production (that is, the generation of less than 30 MW of electric energy for sale to CFE or for exportation). All electric energy generation projects require a permit from the Energy Regulatory Commission, with the understanding that their electric energy generation capacity must be 0.5 MW or greater. These contracts are known as legacy contracts because they are regulated under the former regime, with the option to preserve their rights and obligations or to adopt the new regime partially or totally.

The following table shows the 2016 overall capacity by modality.

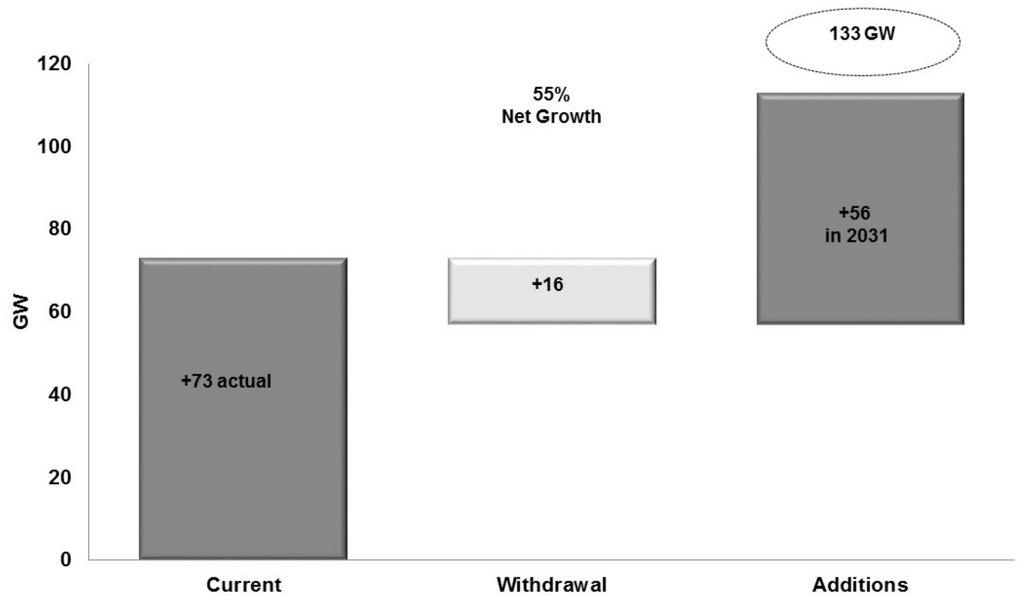
Modality	Total Capacity	Share (%)
Modalities according to the (LSPEE)[1]		
CFE	367	0.5%
Independent producers	13,255	18.0%
Self-supply	9,577	13.0%
Low-level Production	106	0.1%
Cogeneracion	4,395	6.0%
Exports	1,549	2.1%
Own Continuous Use	497	0.7%
Modalities according to the (LIE)[2]		
CFE - Generator	42,902	58.4%
Generator	600	0.8%
Others		
FIRCO and GD[3]	262	0.4%
Total[4]	73,510	100.0%

Notes: [1] Public Electric Energy Service Law. [2] Electric Industry Law. [3] FIRCO: Shared Risk Trust Fund and GD: Distributed Energy Generation.[4] The totals may not add up due to rounding.

The following chart shows the current installed capacity evolution by type of technology 2017 - 2031.



As can be observed in the following chart, it is expected a 55% net growth in total capacity under operation of 55% is expected from 2017 to 2031, including 133 GW of additional and 16 GW of withdrawals.



As of the end of 2017, three long-term wholesale electricity market auctions took place. CENACE awarded 20.6 million clean energy certificates, 19.8 million MWH of energy and 1.8 GW of capacity, which represents an investment USD$9 billion between 2016 and 2020. The contracts have a 15-year term for capacity and energy, and a 20-year term for clean energy certificates. From these energy generation power plants will help to meet the goal of 35% clean energy generation in 2024.

Sources of renewable energy

In recent years, Mexico has strived to develop and promote the use of non-fossil fuels and to further the development of a more varied energy matrix. Modifications to the energy regulation framework that were approved by the Mexican Congress in October 2008 included the Renewable Energy Use Law and the Financing of the Energy Transition. This law was superseded by the Energy Transition Law (LTE) that was published on December 24, 2015. The objective of this new law is to regulate the use of sustainable energy, to establish the obligations involved in clean energy and reduce the discharge of contaminants to the atmosphere from the electric industry. In the long run, the use of renewable energy can help balance the country's electric energy portfolio and reduce its dependence on inputs that are subject to high price volatility. The LTE provides that by 2018, at least 25% of the electric energy in Mexico shall be generated by clean sources, reaching 30% in 2021 and 35% in 2024. In addition, as the government implements the required incentives and applicable regulations, it creates new investment opportunities.

Mexico has a wide variety of renewable sources of energy, including wind, geothermic, solar and hydroelectric energy. The country is especially rich in wind and solar resources. The Mexican Wind Energy Association estimates that since 2004, the country has invested approximately USD$6.9 billion, in wind energy. This has created 3,527 MW of capacity, which is expected to grow by 12,000 MW between 2020 and 2022.

In 2016, renewable energy sources were 28.8% of Mexico's installed electric energy generation capacity, which represents an increase of 10.2% from 2015 to 2016.

The 1992 energy reform allowed, for the first time, private industry participation in the construction and operation of plants using renewable energy. However, the use of this type of energy has stagnated in comparison with that of fossil fuel. This is due in part to the absence of an integral infrastructure capable of overcoming the large number of existing obstacles, such as complicated land use permits, insufficient transmission infrastructure and cost advantages that prevented the CFE from buying electricity at higher prices.

Finally, in 2012, the Senate unanimously approved the General Climate Change Law, establishing the obligation that, by 2024, at least 35% of the electric energy produced in Mexico be generated from non-fossil fuel sources. This objective has been ratified by the LTE. This law turned Mexico into the second country in the world –trailing only the United Kingdom– to adopt obligatory weather-oriented policies. The private companies in the best position to take advantage of these trends will be able to post major growth levels as the country's electric energy requirements continue to grow and the country adopts a clean technology regimen.

Concerning energy reform, certain obligations for the use of clean energy became applicable to the players in the electric energy market. Clean energy certificates, or CELs, will be issued to "clean energy generating companies". The electric energy generators may receive a clean energy credit for each MW/hr. generated in clean energy plants. These certificates will be negotiated through the wholesale electricity market, long-term bilateral contracts and in the spot market. Starting 2018, the use of clean energy is mandatory; the Ministry of Energy has established that at least 5% of energy used must come from clean energy sources and that the deficit be compensated by CELs. In addition, the Ministry of Energy has provided that by 2019, at least 5.8% of energy must come from clean energy sources and the deficit be compensated by CELs. By 2020, at least 7.4% of energy must come from clean energy sources and the deficit be compensated by CELs. By 2021, at least 10.9% of energy must come from clean energy sources and the deficit be compensated by CELs. By 2022, at least 13.9% of energy must come from clean energy sources and the deficit be compensated by CELs.

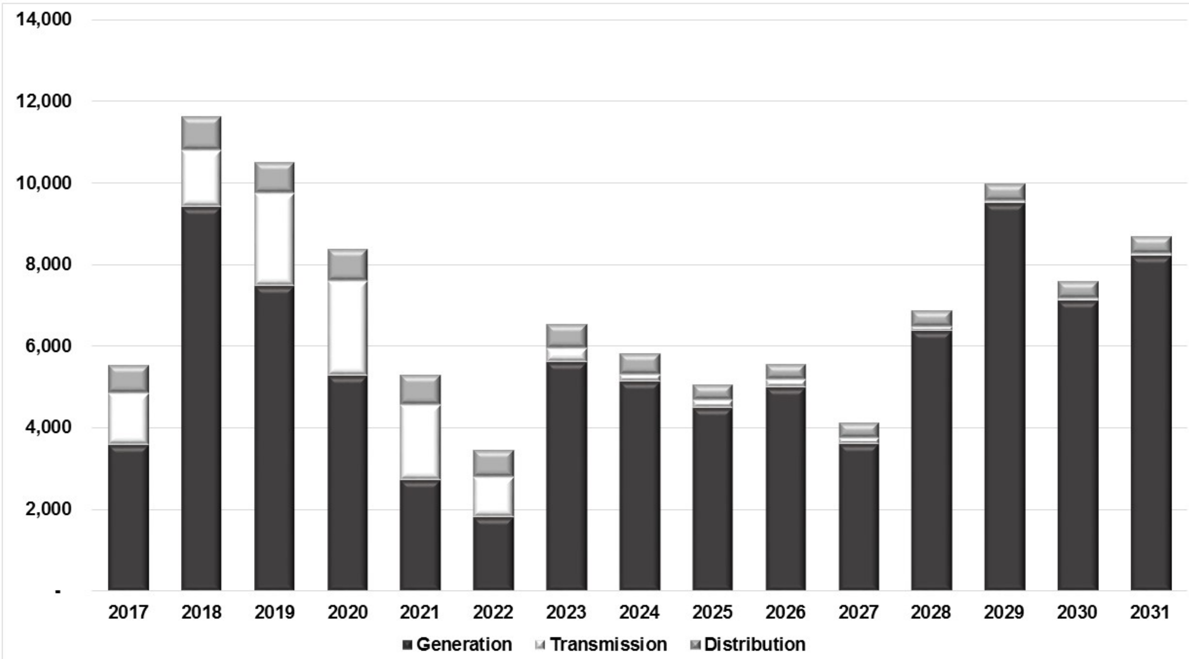
In addition, the LTE opened the possibility for large consumers to sign voluntary contracts with the Ministry, through the National Commission for Efficient Energy Use, to reduce the intensity of the energy in their activities. The LTE has also created a voluntary certification mechanism known as "Excellence in Energy Efficiency" to identify and promote products to make energy use sustainable and efficient.

Furthermore, the CFE contemplates holding auctions for the development and operation of transmission lines under long-term contracts, creating electricity interconnections with North and Central America, and contemplating investments estimated at more than USD$11.0 billion to modernize the electric energy transmission network during the next 15 years.

The growth of the national natural gas and electric energy sectors

The SENER and the CENACE believe that electricity demand will continue to grow by an annual average of 3% between 2017 and 2031 and the present infrastructure is still insufficient to meet the country's future requirements for electricity supply. Consequently the expansion of gas pipeline systems and energy storage infrastructure will be necessary. To meet these needs, new generation capacity of 56 GW will be required, as well as major investments in transmission and distribution. An average annual investment of USD$ 7.0 billion per year is expected.

The following graph shows the estimated annual investment through 2031, in millions of USD$.



According to the Natural Gas Prospect for 2017-2031, in 2016 the demand for natural gas was 7.6 MMcfd. By 2031, the demand for natural gas will be 9.7 MMcfd, which represents an increase of 26.8% from 2016, with an expected average annual increase of 1.6%.

In addition, during the next 15 years, national electric energy demand is forecasted to reach a compound annual growth rate of 3.0%, and the maximum demand in the interconnected system is expected to grow 3% nationally, 2.8% in Baja California Norte and 3.9% in Baja California Sur.

The increased use now poses a challenge to Mexico. The Company feels that the construction of new gas pipeline infrastructure, the construction of a new capacity for importing natural gas, and/or the expansion of the present capacity are indispensable to the country's short- and medium-term economic development, and that in the final analysis they create opportunities for the players in this industry.

The Company foresees that the introduction of natural gas infrastructure will foster the growth of new industries and will represent an opportunity for additional gas pipeline expansion and the diversification of its customer base.

Industry Outlook

Mexico has abundant reserves of petroleum and natural gas, yet strong economic growth is causing energy demand to outpace the country's ability to generate additional supply. Historical under-investment in exploration and production has limited supply, and budgetary constraints related to major projects such as natural gas pipelines, transmission lines, and power plants have hindered the development of energy infrastructure.

The Company anticipates that current macroeconomic dynamics in Mexico will create significant opportunities for growth in the energy infrastructure sector over the next several years as demand for energy resources continues to grow.

According to the Mexican Energy Ministry in its Five-Year Plan for the Expansion of the National Natural Gas Integrated Transportation and Storage System, 2015-2019, over the next five years Mexico will build additional pipelines with an aggregate length of 5,519 km, which will require an aggregate investment of approximately USD $9.7 billion.

Regulatory Outlook

In Mexico, both the natural gas and power sectors are regulated and include a high level of participation by the Mexican government. In the power segment, until the recent amendment of the legal framework for the regulation of the Mexican energy sector, the Mexican Federal Electricity Commission was a decentralized agency of the Mexican government and was responsible for all planning activities relating to the Mexican power grid and for generating, transmitting, distributing and selling electricity in Mexico. As a result of such amendment, the Mexican Federal Electricity Commission is now an independently-managed company that is 100% owned by the Mexican Government. In addition, under the new legal framework the Mexican government, through the newly created Mexican Center for the Control of Electrical Energy, has exclusive control over the Mexican power grid and all related planning activities. The Mexican Center for the Control of Electrical Energy also serves as an independent system operator of the Mexican wholesale electricity market.

In the natural gas segment, Pemex (together with its subsidiaries, including Pemex TRI) has also become an independent company that is 100% owned by the Mexican Government. The amendment of the legal framework for the regulation of the Mexican energy sector was intended primarily to allow Pemex to focus on profitable exploration and production activities while attracting foreign investment, and to allow Pemex to stimulate the whole energy industry from upstream to retail distribution: oil and gas as well as power and utilities.

The legislative changes that took place in Mexico in the 1990s created significant investment opportunities for the private sector from 1995, when regulatory reform allowed private sector participation in the natural gas midstream (storage and transportation) and downstream (retail distribution) sectors.

In the power segment, since the nationalization of the Mexican electricity industry in 1960 until 1992, the Mexican Federal Electricity Commission had been solely responsible for power generation in Mexico. The 1992 reforms and 1997 legislation allowed IPPs to build and operate power generation plants for self-consumption or to export the electricity generated or sell it to the Mexican Federal Electricity Commission under long-term agreements at fixed prices. IPPs operate under long-term (typically 25-year) build-own-operate contracts. A majority of IPPs receive their natural gas supply from the Mexican Federal Electricity Commission under long-term contracts that match their operating term. The recently enacted Mexican Law for the Electricity Industry allows the private sector to generate and market electricity, subject to the receipt of a permit under a regulated open market. See "Legal Framework and Taxation."

Natural Gas and Power Demand Outlook

The CFE power plants generated 54.7% of the electricity in 2016. The Independent Power Producers generated 27.8% and the remaining 17.5% was contributed by private electricity generators such as self-supply, cogeneration, small production, exports, own continuous use, Distributed Generation and non-interconnected rural systems reported by Shared Risk Trust Fund. In Mexico, the combined cycle is the predominant electricity generation technology. There are currently 71 power plants with a total installed capacity of 27,274 MW, equivalent to 37% of the national installed capacity. The electricity generated in 2016 reached 160,378 GWh, which represented 50% of the electrical generation of the country in that year.

Based on the expected progress in the generation of electricity, the natural gas consumption will increase at an average annual rate of 2.7%, so by 2031 it will reach 60% of the total consumption of fossil fuels required for the production of electricity. From 2017 to 2021 a more dynamic growth of natural gas consumption is expected, derived from the incorporation of 8.3 GW of combined cycle projects that will be fully operational by 2020, representing 44% of the total additional capacity of this technology to be installed in the period from 2017 to 2031. Once the 14 gas pipelines in the national network that are currently under construction and estimated to start commercial operation in 2018 are placed in service, the natural gas transport capacity will increase annually by 12,681 mmcfd.

Natural Gas Supply Outlook

Despite its formidable gas reserves and its geographical location in a part of the world with vast reserves, it is likely that Mexico, with its lack of infrastructure for natural gas transportation and its relatively low levels of extraction, will find it difficult to meet the growing internal demand, and therefore, will continue to be dependent on natural gas imports. According to the Ministry of Energy's Natural Gas and LP Gas Prospect for 2015-2029, these imports helped meet about 38% of the country's demand in 2015. As the result of the increased demand for natural gas, the National Pipeline System (which prior to the recent energy reforms was controlled by Pemex TRI) has proved limited in its capacity, posing a major threat of interruption of the supply of natural gas to consumers.

Competition Outlook

In general terms, the Mexican energy industry is highly concentrated in a few key players that account for a significant portion of each market segment. In the natural gas pipeline market, the four largest companies control almost 90% of the market. CENAGAS controls the largest share, representing 35% of the market, followed by the Company, with 33% (based on design capacity). Likewise, the natural gas distribution market is concentrated in only a few companies: Gas Natural Fenosa and Engie control almost 80% of the total market, altogether representing (in terms of the number of customers) 62% and 19%, respectively. In the private energy generation market, the two main companies, Iberdola and Gas Natural Fenosa, collectively control 61% of the total market (in terms of design capacity).

The Competition

The Gas Segment

The Gas Pipeline Business

While nearly all of the natural gas transportation capacity is contracted under firm, long-term capacity agreements, in the event that the Company participates in calls for bids for new natural gas projects, in order to attract customers the Company may find itself having to compete with other energy infrastructure service providers with large amounts of capital, such as TransCanada, Kinder Morgan, Elecnor, Engie, Fermaca, Grupo Carso and Enagás. In addition, the Company may face competition from public or state-operated companies, their subsidiaries and affiliates.

The LPG supply market is highly competitive. At present, new pipelines are being built to meet the demand for LPG in each of the markets covered by the pipelines. The Company's pipelines compete mainly with those of other companies that transport, store and distribute natural gas and LPG. Some of these competitors could expand and build new systems, thus creating additional competition to the services the Company renders to its customers.

The LNG Business

At present, the LNG Terminal faces no competition since its full capacity is consigned to long-term contracts that generate income for the Company whether or not the customers deliver shipments of LNG. In the event that the Company should have available storage capacity at the LNG Terminal, the Company will have to compete in order to attract customers wishing to supply gas in northern Mexico and in the United States. Presently, the only other regasification terminals on the west coast of North and South America are Manzanillo LNG (owned by KOGAS, Mitsui and Samsung), in the state of Colima; LNG Mejillones (owned by Engie and Codelco) in Chile, and LNG Quintero (property of BG Group, ENAP, Endesa Chile and Metrogas), also based in Chile. These terminals serve markets in which the Company does not compete.

The Natural Gas Distribution Business

The key competitors to the distribution business of the Company are the LP gas distributors that furnish that product directly to their customers –generally in trucks– for its storage on their own property. While the cost of natural gas that the distribution business passes on to the clients is based on its price in the international market, the price of the LP gas with which the Company competes has recently been decontrolled to adapt to the market price. The natural gas that the distribution business offers competes with LP gas not only in terms of price bus also in terms of safety, convenience and environmental impact. Unlike LP gas, natural gas is lighter than air and, therefore, can disperse more easily, reducing the risk of explosion. In addition, since the Company furnishes an uninterrupted supply of natural gas to customers when they require it, and unlike LP gas, the use of natural gas does not require customers to store it, the Company feels that the customers view its product as more convenient than LP gas. Finally, since natural gas burns more cleanly than LP gas and does not discharge sulfur oxides or particles, the Company feels that customers also view its product as a more environmentally friendly alternative to LP gas. Despite these advantages, many potential customers continue using LP gas due to the cost involved in outfitting their homes or businesses to use natural gas.

Apart from the above, since the twelve-year exclusivity period for the distribution territories expired in 2011, the Company could face competition from other natural gas distributors in those territories. As the result of the expiration of the exclusivity period, the law now allows other companies to build gas natural gas distribution systems and to compete with the Company to attract customers in each of the distribution territories. This is despite the fact that the Energy Regulatory Commission has yet to issue clear guidelines concerning this possible competition. As other natural gas distributors overcome these barriers, invade the distribution territories, and expand or build distribution systems in them, they will create additional competition for the natural gas distribution activity. The customers are also legally permitted to establish free access transportation systems, thereby building and operating their own natural gas systems to suit their requirements. As other distribution systems are established in the distribution territories, the Company, too, will have to compete with them to supply the Company's clientele.

The Company's ability to compete in the natural gas distribution market is also subject to limitations due to the regulation of this activity. For example, in order to obtain a favorable opinion from the Mexican Antitrust Commission (COFFEE) for the permits the Company required for the operation of the Rosarito pipelines system, the Company agreed to sell the ECOGAS Mexicali distribution system. The Company assumed this obligation in 2000 and has tried in good faith to meet this requirement but has yet to find a buyer for these assets. See "Risk Factors – Risks Relating to The Company's business and Industry – The Company operates in a highly regulated environment, and the profitability depends on the ability of the Company to timely and efficiently comply with a number of laws and regulations on a timely and efficient basis."

The Electric Energy Segment

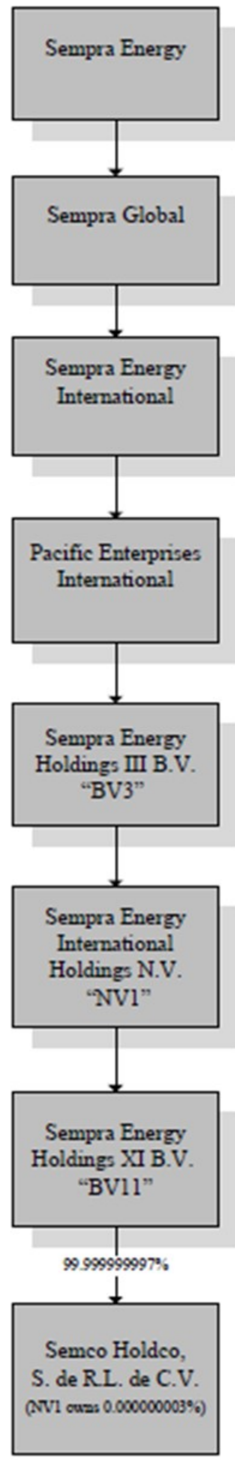
The laws and regulations applicable to electric energy generation in Mexico limited private industry participation to certain types of activities: independent electric energy production, exportation, small production and generation of self-supplied energy for their own use. However, with the energy reform and the August 2014 publication of the Electric Energy Industry Law, private industry generation of electric energy, while subject to the issuance of a permit, is no longer limited and may be sold to the wholesale markets. See the section "Legal Framework and Taxation". CENACE currently holds annual calls for the award of long-term electricity supply contracts with CFE, where the Company competes with globally recognized energy generators such as Enel, Engie, Iberdrola, Gas Natural Fenosa, Mitsui and EDF, among others.

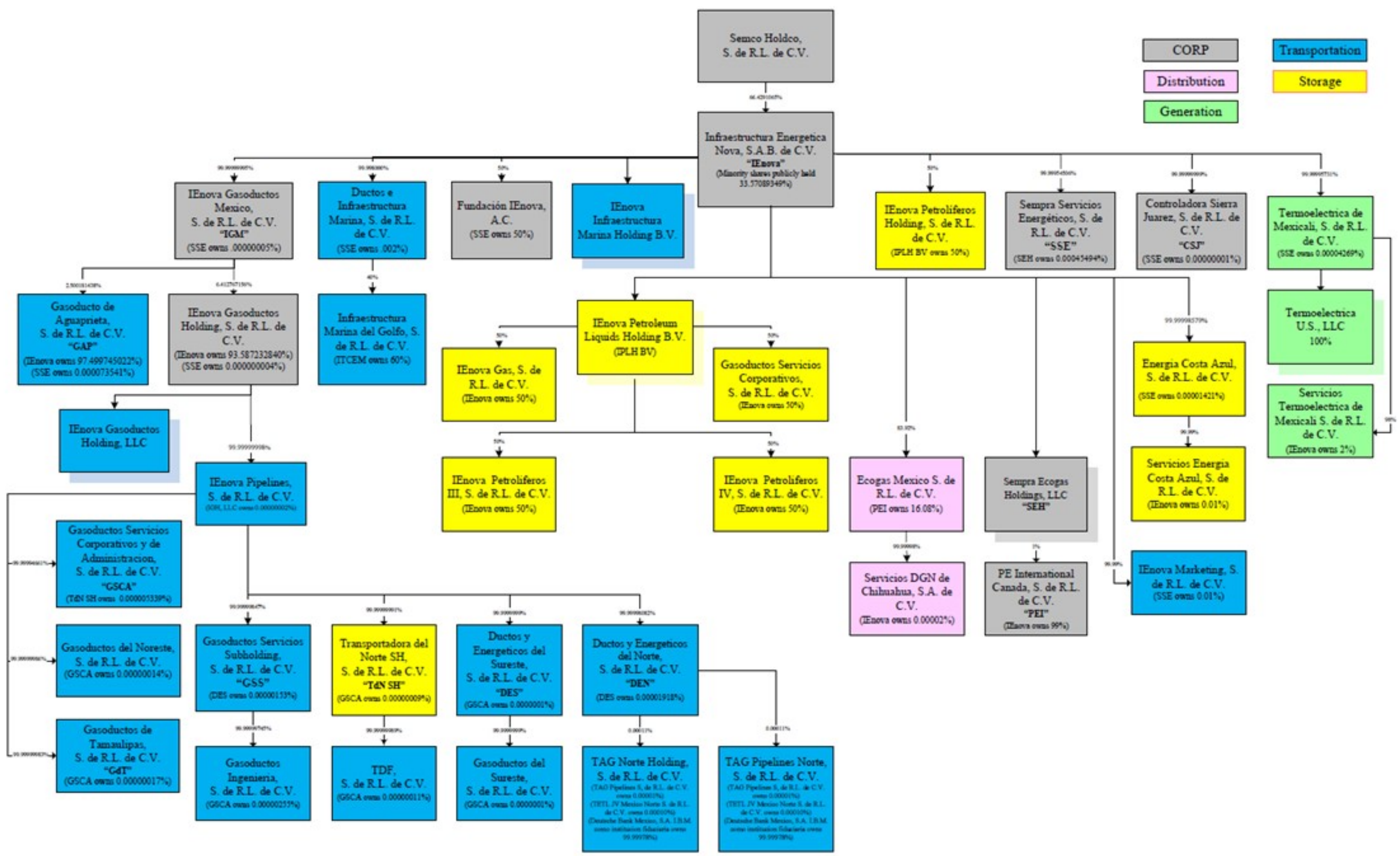
During 2016, IEnova participated in these bidding processes and was awarded two solar projects during the Second Long Term Auction: "Tepezalá Solar" and "Rumorosa Solar" with capacities of 100 MW_{AC} and 41 MW_{AC}, respectively, which are expected to start operations in 2019. In 2017, the Company executed a 20-year dollar-denominated electric supply agreement with DeAcero to provide it with energy, clean energy certificates and capacity generated by the 110 MW_{AC} Pima Solar project to be developed, constructed and operated by the Company in Caborca, Sonora. The company expects that the Pima Solar project will start commercial operations in the fourth quarter of 2018 and have an estimated investment of approximately USD$115 million.

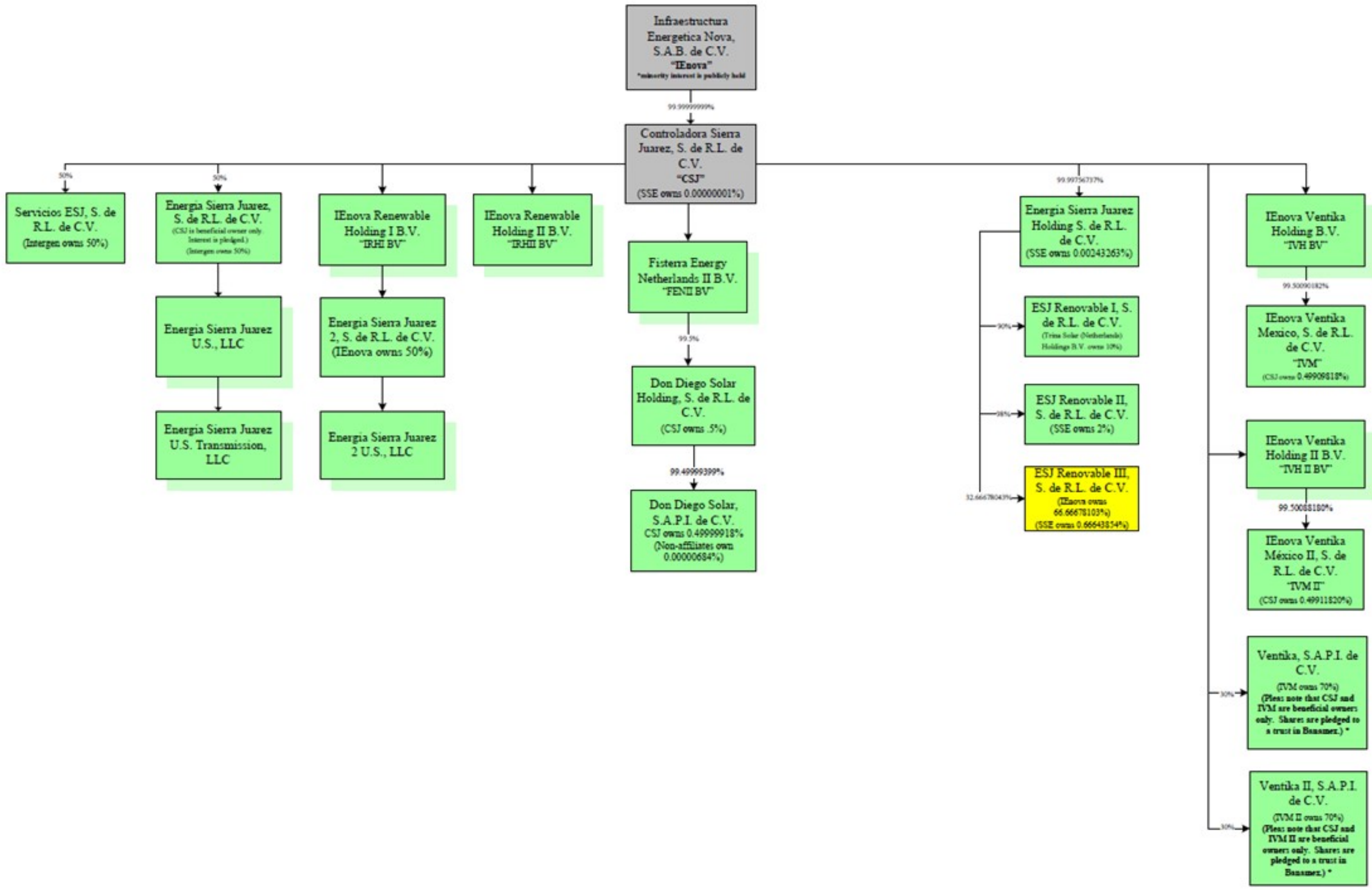
Regarding the operation of Termoeléctrica de Mexicali, it sells its energy in the state of California's wholesale market, competing daily with other generating companies that supply energy in the same market.

With regard to the Energía Sierra Juárez wind power generation facility, all the electric energy generated by the first phase of this project is sold to one of the Company's affiliates in the United States under a long-term supply contract. See the section "—Business segments – Electric Energy Segments – generation of electric energy using wind: Energía Sierra Juárez –Key contracts – Power Purchase Agreements." In order to attract customers in the United States, the Company competes mainly with other energy producing plants and with the spot market in general. In terms of the sale of electric energy to customers in the United States, the electric energy that the Company sells and markets through its affiliates is in direct competition with other generating and marketing companies who serve the markets in the regions where the Company operates. These competitors may include government owned energy-producing companies, local dealers with their own generating capacity and other private companies dedicated to electric energy generation and marketing. In view of the fact that Sempra Energy, the holding company, also participates in the electric energy generation segment through affiliates of the Company in the United States, the Company could also compete with these affiliates. The key elements comprising competition are price, availability, terms of service, flexibility and reliability. The supply and demand for electric energy are affected by the performance of the economy in general, conservation measures, legislation, environmental regulations, weather conditions and the expansion of generation capacity, among other factors.

ix) Corporate Structure as of March 20, 2018



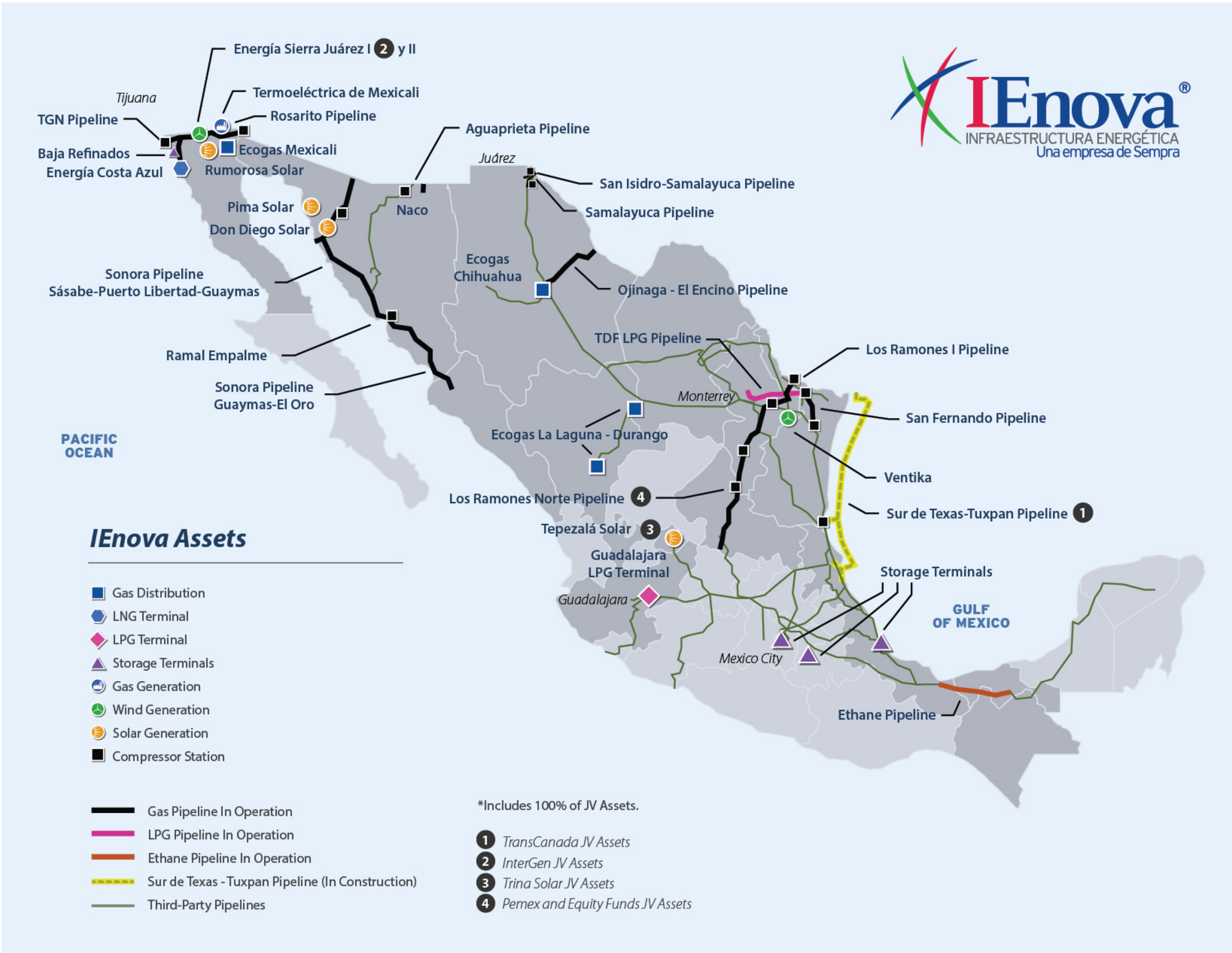

CORP
Distribution
Generation
Transportation
Storage
Semco Holdco, S. de R.L. de C.V.
Infraestructura Energetica Nova, S.A.B. de C.V. "IEnova"
IEnova Gasoductos Mexico, S. de R.L. de C.V. "IGM" (SSE owns .00000005%)
Ductos e Infraestructura Marina, S. de R.L. de C.V. (SSE owns .002%)
Fundación IEnova, A.C. (SSE owns 50%)
IEnova Infraestructura Marina Holding B.V.
IEnova Petroliferos Holding, S. de R.L. de C.V. (IPLH BV owns 50%)
Sempra Servicios Energéticos, S. de R.L. de C.V. "SSE"
Controladora Sierra Juarez, S. de R.L. de C.V. "CSJ" (SSE owns 0.00000001%)
Termoelectrica de Mexicali, S. de R.L. de C.V.
Gasoducto de Aguaprieta, S. de R.L. de C.V. "GAP"
IEnova Gasoductos Holding, S. de R.L. de C.V.
Infraestructura Marina del Golfo, S. de R.L. de C.V. (ITCEM owns 60%)
IEnova Petroleum Liquids Holding B.V. (IPLH BV)
Energia Costa Azul, S. de R.L. de C.V.
Termoelectrica U.S., LLC 100%
IEnova Gas, S. de R.L. de C.V. (IEnova owns 50%)
Gasoductos Servicios Corporativos, S. de R.L. de C.V. (IEnova owns 50%)
Servicios Termoelectrica de Mexicali S. de R.L. de C.V. (IEnova owns 2%)
IEnova Gasoductos Holding, LLC
Servicios Energia Costa Azul, S. de R.L. de C.V. (IEnova owns 0.01%)
IEnova Pipelines, S. de R.L. de C.V.
IEnova Petroliferos III, S. de R.L. de C.V. (IEnova owns 50%)
IEnova Petroliferos IV, S. de R.L. de C.V. (IEnova owns 50%)
Ecogas Mexico S. de R.L. de C.V. (PEI owns 16.08%)
Sempra Ecogas Holdings, LLC "SEH"
Gasoductos Servicios Corporativos y de Administracion, S. de R.L. de C.V. "GSCA"
IEnova Marketing, S. de R.L. de C.V. (SSE owns 0.01%)
Servicios DGN de Chihuahua, S.A. de C.V. (IEnova owns 0.00002%)
PE International Canada, S. de R.L. de C.V. "PEI" (IEnova owns 99%)
Gasoductos del Noreste, S. de R.L. de C.V.
Gasoductos Servicios Subholding, S. de R.L. de C.V. "GSS"
Transportadora del Norte SH, S. de R.L. de C.V. "TdN SH"
Ductos y Energeticos del Sureste, S. de R.L. de C.V. "DES"
Ductos y Energeticos del Norte, S. de R.L. de C.V. "DEN"
Gasoductos de Tamaulipas, S. de R.L. de C.V. "GdT"
Gasoductos Ingenieria, S. de R.L. de C.V.
TDF, S. de R.L. de C.V.
Gasoductos del Sureste, S. de R.L. de C.V.
TAG Norte Holding, S. de R.L. de C.V.
TAG Pipelines Norte, S. de R.L. de C.V.



Infraestructura Energetica Nova, S.A.B. de C.V. "IEnova" *minority interest is publicly held
99.99999999%
Controladora Sierra Juarez, S. de R.L. de C.V. "CSJ" (SSE owns 0.00000001%)
50%
Servicios ESJ, S. de R.L. de C.V. (Intergen owns 50%)
50%
Energia Sierra Juarez, S. de R.L. de C.V. (CSJ is beneficial owner only. Interest is pledged.) (Intergen owns 50%)
Energia Sierra Juarez U.S., LLC
Energia Sierra Juarez U.S. Transmission, LLC
IEnova Renewable Holding I B.V. "IRHI BV"
Energia Sierra Juarez 2, S. de R.L. de C.V. (IEnova owns 50%)
Energia Sierra Juarez 2 U.S., LLC
IEnova Renewable Holding II B.V. "IRHII BV"
Fisterra Energy Netherlands II B.V. "FENII BV"
99.5%
Don Diego Solar Holding, S. de R.L. de C.V. (CSJ owns .5%)
99.49999399%
Don Diego Solar, S.A.P.I. de C.V. CSJ owns 0.49999918% (Non-affiliates own 0.00000684%)
99.99756737%
Energia Sierra Juarez Holding S. de R.L. de C.V. (SSE owns 0.00243263%)
90%
ESJ Renovable I, S. de R.L. de C.V. (Trina Solar (Netherlands) Holdings B.V. owns 10%)
98%
ESJ Renovable II, S. de R.L. de C.V. (SSE owns 2%)
32.66678043%
ESJ Renovable III, S. de R.L. de C.V. (IEnova owns 66.66678103%) (SSE owns 0.66643854%)
IEnova Ventika Holding B.V. "IVH BV"
99.50090182%
IEnova Ventika Mexico, S. de R.L. de C.V. "IVM" (CSJ owns 0.49909818%)
IEnova Ventika Holding II B.V. "IVH II BV"
99.50088180%
IEnova Ventika México II, S. de R.L. de C.V. "IVM II" (CSJ owns 0.49911820%)
30%
Ventika, S.A.P.I. de C.V. (IVM owns 70%) (Pleas note that CSJ and IVM are beneficial owners only. Shares are pledged to a trust in Banamex.) *
30%
Ventika II, S.A.P.I. de C.V. (IVM II owns 70%) (Pleas note that CSJ and IVM II are beneficial owners only. Shares are pledged to a trust in Banamex.) *

x) Description of The Company's main assets

The following map shows the location of the Company's main assets:



Gas Segment

Gas segment includes (1) the Company's pipelines business, which owns and operates systems for receiving, transporting, storage and delivery of natural gas, ethane and LPG, (2) the Company's LNG business, which owns and operates an LNG storage and regasification terminal, and also purchases LNG and sells natural gas to its customers, and (3) the natural gas distribution business, which distributes natural gas to more than 120,000 residential, commercial and industrial customers in northern Mexico. A more detailed description of each of the businesses within gas segment follows.

Pipeline and Storage Business

Overview

The Company's pipeline business owns and operates systems for receiving, transporting, storing and delivering natural gas, LPG and ethane, including more than 2,900 km of natural gas pipelines (of which approximately 800 km were under construction as of December 2017), 224 km of ethane pipelines, 190 km of LPG pipelines, fifteen natural gas compression stations (eleven in operation, one in commissioning and three under construction) with an aggregate of over 588,810 horsepower, and an 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara. These assets are located in the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz.

The Company's current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline, Naco compression station, Sonora pipeline, Ojinaga–El Encino pipeline, San Isidro – Samalayuca pipeline, Empalme Lateral pipeline, San Fernando pipeline, Samalayuca pipeline, Ethane pipeline, TDF LPG pipeline, Los Ramones I pipeline, Gloria a Dios compression station and Guadalajara LPG terminal. As a result of the Company's recent acquisition of the remaining 50% interest in Ductos y Energéticos del Norte that we did not previously own, we also now own a 50% interest in the Los Ramones Norte pipeline. See "-Recent Developments-Ductos y Energéticos del Norte Acquisition."

The Company's natural gas pipeline assets have an aggregate design transportation capacity of over 16,501 MMcfd (171.6 MMThd). The ethane pipeline has a design transportation capacity of approximately 52 MMcfd (0.6 MMThd) in the first segment, approximately 152 MMcfd (1.8 MMThd) in the second segment, both as ethane gas, and approximately 106,000 Bbld (1.9 MMThd) in the third segment as ethane liquid. The Company's LPG pipeline has a design transportation capacity of 34,000 Bbld (1.9 MMThd). Upon its completion, the Company's pipelines business will also include the South of Texas-Tuxpan pipeline, which will add approximately 800 km of natural gas pipeline infrastructure and a design natural gas transportation capacity of approximately 2.6 Bcfd (27.0 MMThd).

The majority of the Company's pipelines, compression stations and storage facilities have long-term fixed- capacity contracts with leading industry players, including Shell, Gazprom, CFE, InterGen, TransCanada and CENAGAS, as assignee of Pemex TRI.

Pipelines Firm Transportation Services Agreements

The Company has entered into long-term firm transportation services agreements with various customers with respect to all of the Company's pipelines, which are the key revenue generating contracts for the Company's pipelines business. Pursuant to these contracts the Company is obligated to provide to its customers, and the Company's customers are required to pay the Company for, natural gas transportation service for up to certain maximum daily quantities of natural gas or LPG, as applicable. Each customer pays a monthly fee consisting of a fixed reservation component and a variable component based on the amount of natural gas delivered, plus reimbursement for expenses related to the transportation services that the Company provides. The fixed reservation component of these fees account for the substantial majority of the Company's revenues under these agreements and must be paid by the Company's customers whether or not they use their contracted capacity.

The majority of these agreements have U.S. dollar-denominated fixed rates that are lower than those authorized by the CRE. The CRE establishes (and periodically adjusts) the maximum rates that we may charge to users that have not agreed upon a lower rate with us. For agreements that reflect the maximum rate allowed by the CRE, the fee is adjusted annually to account for inflation and changes in the U.S. dollar- Mexican peso exchange rate in accordance with the Prices and Tariffs Directive (*Directiva de Precios y Tarifas*) established by the CRE.

Most of the Company's firm transportation services agreements also include a financial guarantee or letter of credit to secure the Company's customers' compliance with the terms of the contract. Because the majority of the Company's pipelines systems are open-access, any unused capacity in the Company's pipeline systems can be sold to existing customers or to any third party pursuant to interruptible transportation agreements. While the Company has entered into interruptible transportation services agreements with some customers, such contracts have historically been immaterial to the Company's business and results of operations.

Pipeline assets and LPG storage

The following table contains a summary of natural gas, ethane and LPG assets in operations or under construction, as of December 31, 2017, including those in which the Company participates through a joint venture.

Assets	% share	Length of system (km.)	Design capacity (mmpfd)	% of long-term capacity contracted (1) (2)	Compression available (in HP)	Date Commercial Operations Begun
Natural Gas Transportation						
Rosarito Pipeline System	100%	302(3)	1,434(3)	60%(10)	32,500 (15)	August 2002
TGN Gas Pipeline	100%	45	940	100%	8,000	June 2000(4)
Aguaprieta Pipeline	100%	13	200	25%(11)	N/A	November 2002
Naco Station	100%	N/A	90	100%	14,340	September 2001
Sonora Pipeline (Sasabe - P. Libertad - Guaymas) (Guaymas - El Oro)	100%	835	 770 510	100%	21,000-11,000(6)	 December 2014 May 2017(5)
San Fernando Pipeline	100%	114	1,460	100%	95,670	November 2003
Samalayuca Pipeline	100%	37	400	50%	N/A	December 1997
Gloria a Dios Station	100%	N/A	60	100%	14,300	October 2001
Los Ramones I Pipeline	100%	116	2,100	100%	123,000	December 2014
Ojinaga – El Encino Pipeline	100%	220	1,356	100%	N/A	June 2017
Los Ramones Norte Pipeline(7)	50%	452	1,420	100%	123,000	February 2016
San Isidro – Samalayuca Pipeline	100%	23	1135	100%	46,000	March 2017
South Texas–Tuxpan Pipeline (8)	40%	800	2,600	100%	100,000	Fourth quarter 2018
Empalme Lateral Pipeline	100%	20	226	100%	N/A	June 2017
Ethane Transportation						
Ethane pipeline	100%	224	52/152/106,000 Bbld (12)	100%	N/A	December 2015
LPG Transportation						
TDF Pipeline	100%	190	34,000 Bbld(9)	100%	N/A	December 2007
LPG Storage						
LPG Terminal at Guadalajara LPG	100%	N/A	80,000 Bbl	100%	N/A	December de 2013

(1) The Company defines long-term capacity contracts as those firm contracts with a remaining life of at least eight years.

(2) This reflects the percentage of capacity contracted, which depending on the contract, may be expressed in volume or a heating value (such as BTUs). Although the Company sometimes shows design capacity and contracted capacity figures in both units of volume and heating capacity in order to facilitate comparisons of the different gas segment businesses, in view of the slight differences arising when these figures are converted, some of the figures shown in this Report may not coincide exactly with the percentage of contracted capacity.

(3) The Rosarito Pipeline comprises three segments with different lengths, diameters and transportation capacities, as described below. The figures shown in this table are the arithmetical sum of the length and the design capacities of each of the three sections comprising this system, as calculated by the Energy Regulation Commission.

(4) The TGN pipeline includes an expansion that began operation in February 2008.

(5) The Sásabe-Puerto Libertad-Guaymas section of Sonora pipeline began commercial operations in December 2014 and the Guaymas-El Oro segment began commercial operations in May 2017. The Guaymas-El Oro segment of the Sonora pipeline has been out of service since August 23, 2017. See "Risk Factors-Risks Relating to the Company's Business and the Company's Industry-Natural disasters, accidents, acts of terrorism or criminality could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities."

(6) Compression stations under design.

(7) Joint venture with Pemex TRI and Blackrock.

(8) In construction through IMG, the joint venture with TransCanada.

(9) In barrels of LP gas. The figures for TDF from LP pipelines represent 34,000 Bbl of design capacity for transportation in the pipeline and an additional capacity of 40,000 Bbl in the delivery terminal connected at the west end of the pipeline.

(10) In 2017, Rosarito pipeline had more than 95% of its capacity under the firm base reservation.

(11) 25% of the contracted long-term capacity. If additional, non-long-term contracts are included, the contracted capacity of the Aguaprieta pipeline is 61%.

(12) Approximately 52 MMcfd (0.6 MMThd) in the first segment, approximately 152 MMcfd (1.8 MMThd) in the second segment, both as ethane gas, and approximately 106,000 Bbld (1.9 MMThd) in the third segment as ethane liquid.

(13) Includes La Jovita compression station, currently under commissioning.

Rosarito pipeline system

The Rosarito pipelines system in Baja California is comprised of three pipelines of approximately 302 km in aggregate length, as well as two compression stations with an aggregate a capacity of 32,500 horsepower. This fully bi-directional system starts at an interconnection point with the North Baja Pipeline's system at the Mexico–U.S. border and ends at the Company's interconnection point with TGN pipeline, in the south of the city of Tijuana. The system's bi-directional capability allows the Company to use natural gas supplies from either the U.S. domestic natural gas market or from its LNG Terminal. The three pipelines comprising this system include the Rosarito Mainline, the LNG Spur and the Yuma Lateral:

- *Rosarito Mainline.* This system was completed in 2002 to supply natural gas from the United States to several power plants and industrial customers in Baja California, and it is comprised of a 30-inch diameter pipeline with a length of approximately 225 km, it has a capacity of 534 MMcfd (5.6 MMThd).

- *LNG Spur.* This system was completed in 2008 and delivers regasified LNG from the Company's LNG terminal into the Rosarito Mainline for delivery to power plants and industrial customers in Mexico and the pipeline systems in the United States. This system is comprised of a 42-inch diameter pipeline with a length of approximately 72 km and a capacity of 2,600 MMcfd (27.0 MMThd).

- *Yuma Lateral.* This system was completed in 2010 to supply the power generation market in Arizona, and it is comprised of a 12-inch diameter pipeline with a length of approximately five km and a capacity of 190 MMcfd (2.0 MMThd).

The Rosarito pipeline system includes a 30,000 horsepower Algodones compression station installed on the Rosarito Mainline in Algodones, Baja California, which increases the system's capacity but does not directly generate revenue. The Rosarito pipeline system includes a 2,500 horsepower La Jovita compression station, which is currently under commissioning. It is located at a LNG Spur interconnection point.

The Company has entered into 13 firm transportation services agreements with the Rosarito pipeline system's customers, for 3,777 MMcfd (34 MMThd) or 60% of the system's installed capacity (including compression). The following table contains a summary of the principal terms of the firm transportation services agreements with the Rosarito pipeline system's key customers:

Customer	Purpose	Execution Date	Term	Contracted Capacity (1)	Weighted Average Remaining Contract Length
Shell	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California.	June 19, 2008	20 years	1,104 MMcfd (maximum daily quantity)	11 years
IEnova Marketing (a subsidiary of the Company)(2)	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the LNG Spur and the Rosarito Mainline in Tecate, Baja California.	May 1, 2008	20 years	1,240 MMcfd (maximum daily quantity)	11 years
Gazprom	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California.	April 14, 2009	20 years	135 MMcfd (maximum daily quantity)	11 years
IEnova Marketing (a subsidiary of the Company)(2)	Transportation of natural gas from the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California to an interconnection point with TGN pipeline near Tijuana, Baja California.	February 15, 2002(4)	20 years	379 MMcfd (maximum daily quantity)	5 years
InterGen	Transportation of natural gas from an interconnection point of the Rosarito Mainline and the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California to a point near Las Palmas, Mexicali, Baja California.	February 28, 2002	25 years	128 MMcfd (maximum daily quantity)	11 years
Termoeléctrica de Mexicali (a subsidiary of the Company)(3)	Transportation of natural gas from the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California to an interconnection point with the Company's Termoeléctrica de Mexicali power plant.	February 26, 2002	20 years	100 MMcfd (maximum daily quantity)	6 years

(1) In certain cases, the contracted capacity presented in this table may exceed the system's design capacity due to connection or other limitations in the different components of the Rosarito pipelines system.

(2) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under its contracts with the Rosarito pipelines system in an aggregate amount of USD$125.8 million. IEnova Marketing currently utilizes its contracted capacity to transport natural gas it provides to its customers and to the CFE's 1,300 MW Presidente Juárez power plant. See "– Gas Segment – LNG Business – LNG and Natural Gas Purchase and Sale Operations."

(3) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of Termoeléctrica de Mexicali's obligations under this contract in the amount of USD$29.4 million. Termoeléctrica de Mexicali currently utilizes its contracted capacity to transport gas for operation of its generators.

(4) The last modification agreement to the initial contract is April 1, 2014. The contract expires in 2022.

The following map shows the routes of each of this system's three pipelines, as well as the routes of TGN pipeline:

TGN Pipeline

The TGN pipeline transports natural gas to the Presidente Juárez power plant owned by the CFE to industrial customers in the areas of Tijuana and Rosarito, Baja California and to the Company's affiliate SDG&E in the San Diego, California area. This fully bi-directional system, which is comprised of approximately 45 km of 30-inch diameter pipeline and has a capacity of 940 MMcfd (9.8 MMThd), interconnects with the Rosarito pipelines system in the Tijuana area and extends north to interconnect with the Company's affiliate SDG&E's system at the Mexico–U.S. border in Otay Mesa and southwest to the CFE's 1,300 MW Presidente Juárez power plant in Rosarito, Baja California. This pipeline system includes an 8,000 horsepower Rosarito compression station, which increases the system's delivery pressure. The location and routes of the TGN pipeline is shown in the map above.

The customers of the TGN pipeline contract the full amount of the system's design capacity on a firm basis. The following table contains a summary of the principal terms of the firm transportation services agreements with the TGN pipeline's key customers:

Customer	Purpose	Execution Date	Term	Contracted Capacity[1]	Weighted Average Remaining Contract
IEnova Marketing[1]	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SDG&E's pipeline system in Otay Mesa, California and an interconnection point with the Presidente Juárez power plant in Rosarito, Baja California.	May 1, 2008	20 years	512 MMcfd (maximum daily quantity)	11 years
Shell	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SDG&E's pipeline system in Otay Mesa, California.	June 19, 2008	20 years	380 MMcfd (maximum daily quantity)	11 years

(1) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under this contract in the amount of USD$45.6 million. IEnova Marketing currently utilizes its contracted capacity to transport natural gas it provides to the CFE's 1,300 MW Presidente Juárez power plant. In addition, under the contract with the CFE, IEnova Marketing is reimbursed for the portion of the contracted capacity related to transportation to the Presidente Juárez power plant. See "– Gas Segment – LNG Business – LNG and Natural Gas Purchase and Sale Operations."

Aguaprieta Pipeline

The Company's Aguaprieta pipeline transports natural gas for its main customer, Kinder Morgan, from the interconnection of Kinder Morgan's Willcox Lateral pipeline, located at the Mexico–U.S. border, to the Fuerza y Energía Naco–Nogales combined-cycle power plant located southeast of the city of Agua Prieta, Sonora, which provides electricity to the CFE. This system is comprised of approximately 13 km of 20-inch diameter pipeline and has a design capacity of 200 MMcfd (2.1 MMThd).

[The firm transportation services contracts in force between the Company and the Aguaprieta Pipeline system represent 122 mmpfd (1.3 mmthd), equivalent to 61% of the system's installed capacity. Among these contracts is a firm transportation services contract with the CFE, signed in September 2013, for 67 mmpfd (0.7 mmthd), which is renewed every year after an initial period of two years. This contract supplies a combined cycle generation plant fired with gas from Agua Prieta II, which reached commercial operations in 2017. In addition, in October 2013 the Company signed a firm, six-year transportation services contract with El Paso Marketing for 2 mmpfd (0.3 mmthd). This system was built contemplating the possible construction by the CFE of two additional energy generating plants in the same territory (one of them being Agua Prieta II).]

The map on the following page shows the route followed by the Aguaprieta Pipeline and the location of the Naco Compression Station:

Naco Compression Station

The Company's Naco compression station consists of a 14,340 horsepower compressor installed on Pemex TRI's Naco–Hermosillo natural gas pipeline in Naco, Sonora. The Company has in place a compression services agreement with Pemex TRI under which Pemex TRI has 90 MMcfd (0.9 MMThd) of compression services or 100% of the system's design capacity contracted on a firm basis until 2021. Pemex TRI pays the Company a monthly fixed fee under this agreement, regardless of actual compression services provided. The fee is adjusted annually for inflation. This agreement expires in 2021 but can be renewed for an additional five-year period at Pemex TRI's option. If the agreement is terminated as a result of an event of f*orce majeure*, Pemex TRI may purchase the compression station at the greater of (1) book value plus an agreed markup or (2) fair market value (as determined by an independent appraiser).

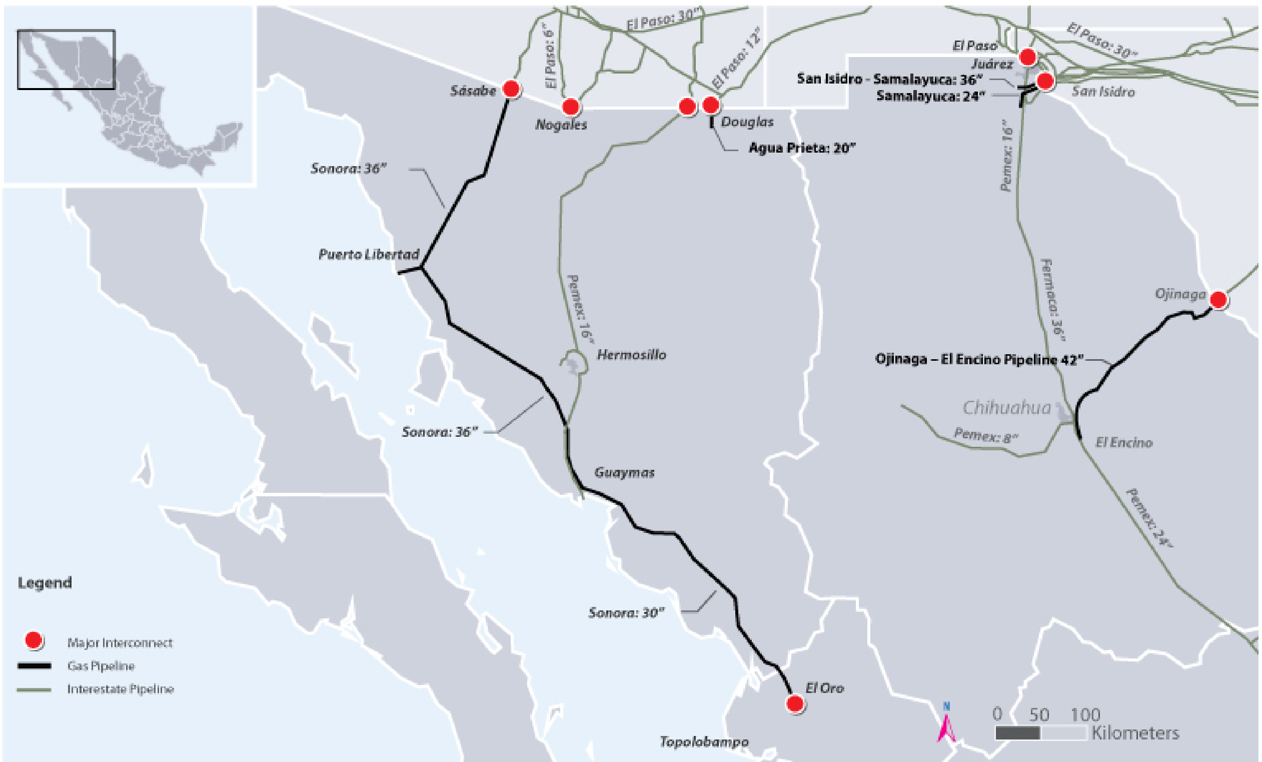
The location of this compression station is shown in the map above.

Sonora Pipeline

In October and November 2012 the Company entered into two natural gas transportation service agreements with the CFE. In connection with these agreements, the Company is building the Sonora pipeline in the states of Sonora and Sinaloa, which will be approximately 835 km in length. This system is comprised of an approximately 505 km, 36-inch pipeline segment with a capacity of 770 MMcfd (8.0 MMThd), and an approximately 330 km, 30-inch pipeline segment with a capacity of 510 MMcfd (5.3 MMThd). For further information regarding the Guaymas - El Oro segment of the Sonora pipeline, see "Risk Factors-Risks Relating to the Company's Business and the Company's Industry-Natural disasters, accidents, acts of terrorism or criminality could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or its ability to repay the Notes" and "Risk Factors-Risks Relating to the

Company's Business and Industry-Business development activities may not be successful and projects under construction may not commence operations as scheduled or be completed within budget, which could materially increase the Company's costs and materially impair the Company's ability to recover the Company's investments." The CFE is the sole customer of these pipelines under 25-year U.S. dollar-denominated take-or-pay capacity agreements.

The following map shows the location of this system:



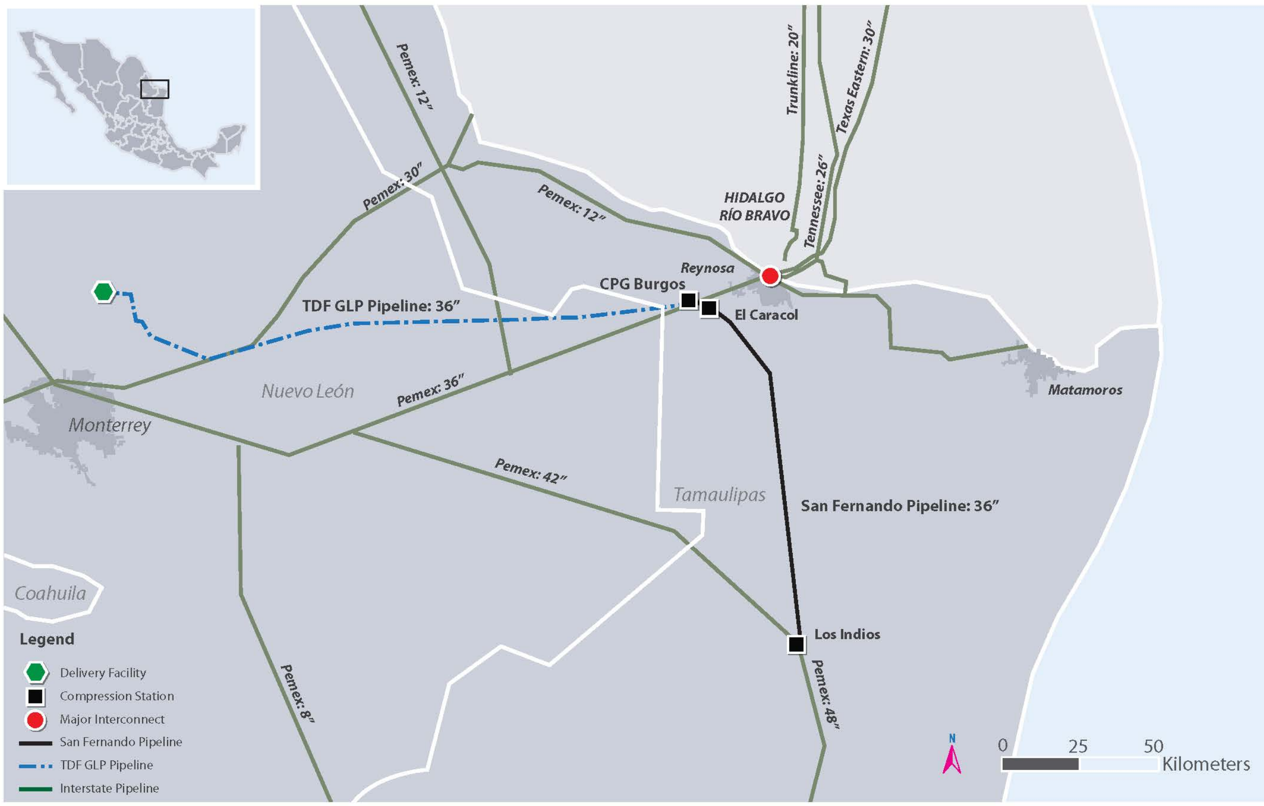
MEX_Sonora_20170515

San Fernando pipeline

San Fernando pipeline consists of approximately 114 km of 36-inch diameter pipeline and two compression stations with an aggregate of 95,670 horsepower. Its transportation capacity (including compression) is 1,000 MMcfd (10.4 MMThd). The pipeline runs from the El Caracol compression station in Reynosa, Tamaulipas to the Los Indios compression station in San Fernando, Tamaulipas. This bi-directional pipeline increases the capacity and improves the reliability of Pemex TRI's natural gas system. The San Fernando pipeline system is operated by the Company.

The San Fernando pipeline's sole customer, CENAGAS, has 100% of the system's designed transportation capacity, contracted on a firm basis. CENAGAS also uses the extra compression capacity on this pipeline pursuant to an interruptible transportation services contract. The firm transportation services agreement with CENAGAS has a declining fee structure over the life of the contract. It has an initial term of 20 years beginning in 2003, but is extendable for a five-year period at the customer's option.

The following map shows the routes of the San Fernando pipeline and the TDF LPG pipeline system:



MEX_San Fernando_20121011

Samalayuca pipeline

Samalayuca pipeline consists of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd). The Samalayuca pipeline, in operation since 1997, was the first privately-owned natural gas pipeline in Mexico. The pipeline runs from Ejido San Isidro to the CFE's Samalayuca power plant and interconnects with a separate 16-inch diameter pipeline that is wholly owned by Pemex TRI, which runs from Ciudad Juárez to Chihuahua. The Samalayuca pipeline is operated by the Company.

The existing firm transportation services agreements with the Samalayuca pipeline's customers have 140 MMcfd (1.5 MMThd) of capacity on a firm basis.

The following table sets forth certain characteristics of the Samalayuca pipeline's firm transportation services agreements:

Customer	Purpose	Execution Date	Term	Contracted Capacity
Pemex TRI	Transportation of natural gas from an interconnection point at the Mexico–U.S. border in Ejido San Isidro, Chihuahua to various interconnection points with Pemex TRI's pipeline system.	December 11, 2009	Annual automatic renovation	40 MMcfd (maximum daily quantity)
CFE	Transportation of natural gas from an interconnection point at the Mexico–U.S. border in Ejido San Isidro, Chihuahua to various interconnection points with the CFE's Samalayuca I, Samalayuca II and Chihuahua III pipeline systems.	December 11, 2009	Annual automatic renovation	100 MMcfd (maximum daily quantity)

The following map shows the route of the Samalayuca pipeline and the location of the Gloria a Dios compression station:

Gloria a Dios Compression Station

Gloria a Dios compression station consists of a 14,300 horsepower compressor installed at the interconnection point of the Company's Samalayuca pipeline and Pemex TRI's Ciudad Juárez—Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. Under a compression and transportation services agreement with the CFE, the compression station's sole customer, the Company has 60 MMcfd (0.6 MMThd) of compression services contracted on a firm basis.

The CFE pays for these services based on a rate established by the CRE. Pursuant to this agreement, the Gloria a Dios compression station provides compression services for the Chihuahua II power plant in the state of Chihuahua and transports natural gas from an interconnection between Kinder Morgan's pipeline system and the Samalayuca pipeline at the Mexico—U.S. border. It delivers the compressed gas to the Gloria a Dios interconnection of the Samalayuca pipeline and Pemex TRI's pipeline system. The agreement was executed in November 2011 and has a term of 20 years, with a five-year extension at the CFE's option.

Los Ramones I pipeline

This pipeline system, which began commercial operations in December 2014, is comprised of approximately 116 km of 48-inch diameter pipeline with a design transportation capacity of 2,100 MMcfd (21.8 MMThd). It transports natural gas from the northern portion of the state of Tamaulipas bordering the United States to the interconnection points with the Los Ramones Norte Pipeline and the national gas pipeline system in Los Ramones in the State of Nuevo León. This system also includes two compression stations that began commercial operations in December 2015 (the Frontera station, located near Camargo City, Tamaulipas, with approximately 82,000 horsepower and the Ramones station, located near Los Ramones, Nuevo León, with approximately 41,000 horsepower). CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline under a 25-year firm transportation services agreement.

Ojinaga–El Encino Pipeline

In December 2014 the Company entered into a firm transportation services agreement with the CFE, for the construction and operation of a 42-inch pipeline with an approximate length of 220 km and a design capacity of 1,356 MMcfd (14.1 MMThd) to transport natural gas from Ojinaga to El Encino in the State of Chihuahua. The CFE is the sole customer of this system under a 25-year firm transportation services agreement. The system commenced operations in June 2017.

The following map shows the location of the Ojinaga–El Encino pipeline:

Los Ramones Norte pipeline

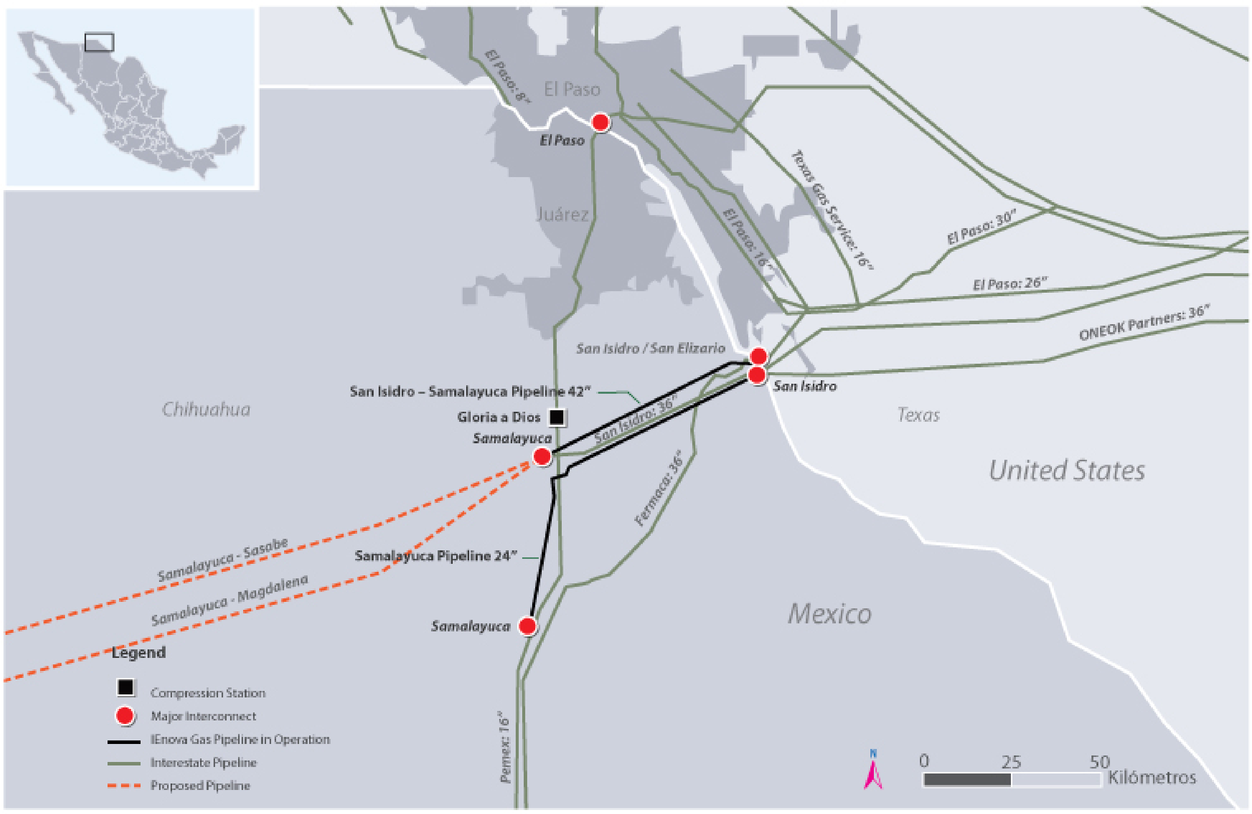
In March 2014, Ductos y Energéticos del Norte entered into a shareholders' agreement to set up a joint venture, which is referred to as the TAG Norte joint venture, for the construction and operation of the Los Ramones Norte pipeline project. In the same month, the TAG Norte joint venture executed a 25-year natural gas firm transportation services agreement with Pemex TRI to construct and operate an approximately 452 km, 42-inch diameter pipeline with a design transportation capacity of 1,420 MMcfd (14.8 MMThd) and two compression stations. This pipeline connects with the Los Ramones I pipeline and the Los Ramones Sur pipeline in San Luis Potosí. CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline.

Through Ductos y Energéticos del Norte, the Company has a 50% interest in the TAG Norte joint venture, Blackrock has 45% and Pemex through TAG Pipelines has the remaining 5%. Each joint venture partner has a right of first refusal and a tag-along right in the event another partner desires to transfer its interest to a third party.

San Isidro–Samalayuca Pipeline

In July 2015 the Company entered into a 25-year firm transportation services agreement with the CFE for the construction and operation of a pipeline with an approximate length of 23 km, an installed capacity of 1,135 MMcfd (11.8 MMThd), a 46,000 horsepower compression station and a distribution header with a capacity of 3,000 MMcfd (31.2 MMThd), which will serve as an interconnection point for several other pipeline systems. The CFE will be the sole customer of this system under the firm transportation services agreement. The system, located in Ciudad Juárez, Chihuahua, started operations in March 2017.

The following map shows the route of the San Isidro–Samalayuca pipeline:

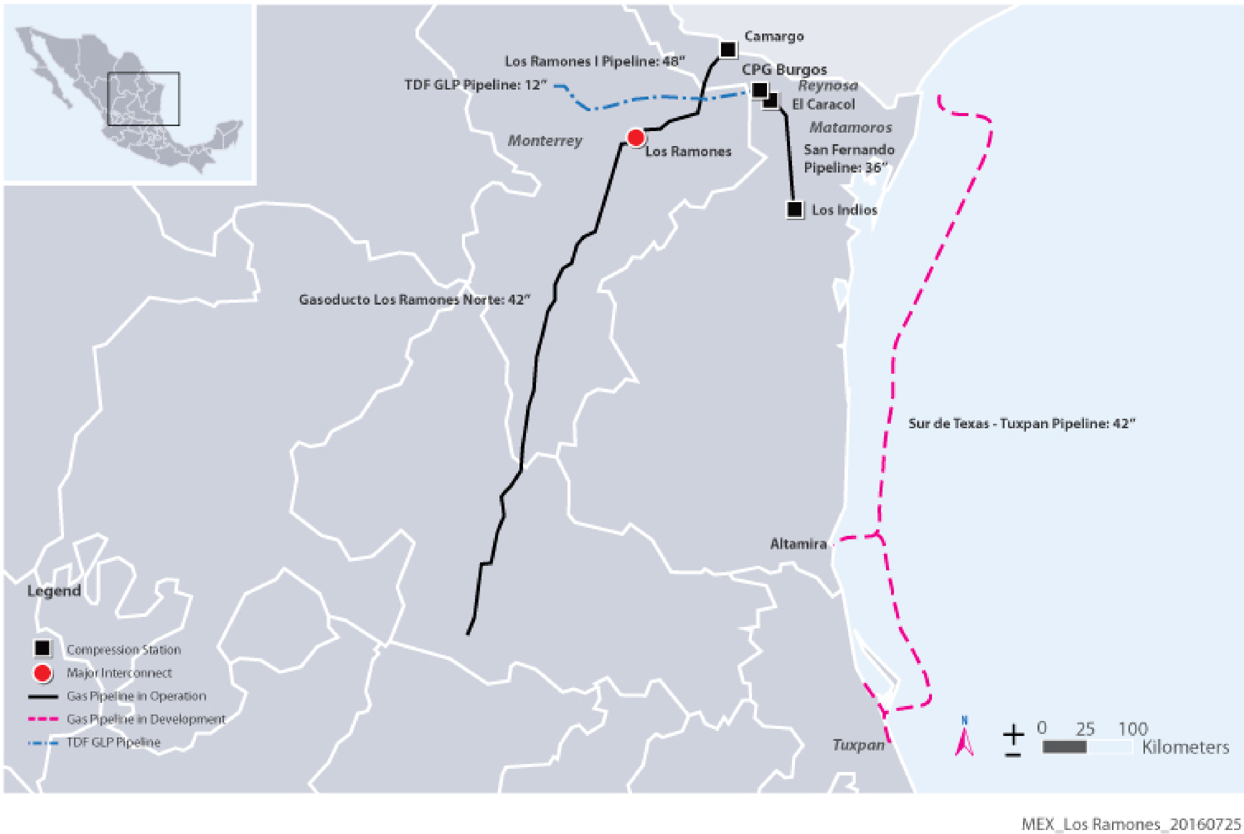


MEX_San Isidro Samalayuca_11/9/2017

South of Texas – Tuxpan pipeline

In June 2016, the Company, through IMG its joint venture with TransCanada in which the Company holds a 40% equity interest entered into a 25-year agreement with the CFE to provide natural gas transportation services through the South of Texas—Tuxpan pipeline. Pursuant to this agreement, IMG is responsible for the development, engineering, procurement, construction, operation and maintenance of a 42-inch natural gas pipeline with capacity of 2,600 MMcfd (27 MMThd), that runs approximately 800 kilometers from the south of Texas to Tuxpan. The Company and TransCanada have agreed to provide credit support to IMG's suppliers and other counterparties, including the CFE and Mitsui & Co, Ltd., in connection with the development of this pipeline. The Company estimates the capital expenditures for the South of Texas—Tuxpan pipeline to be approximately USD$2.1 billion, of which the Company will assume USD$840 million (in proportion to its ownership). The Company expects the South of Texas—Tuxpan pipeline to begin commercial operations during the fourth quarter of 2018.

The following map shows the route of the South of Texas—Tuxpan pipeline:



Empalme Lateral Pipeline

In May 2016, the Company was awarded a natural gas pipeline from the CFE for the Empalme Lateral in the State of Sonora. This 20-inch natural gas pipeline with a capacity of 226 MMcfd (2.4 MMThd) runs approximately 20 km between Empalme and Guaymas, where it interconnects with the Sonora pipeline project. It was developed and built by the Company pursuant to a 21-year firm transportation services agreement entered into between the Company and the CFE. The Company is responsible for the operation and maintenance of the pipeline. Empalme Lateral pipeline started commercial operations on June 2017. The following map shows the route of the Empalme Lateral pipeline:

MEX_Empalme_20170515

Ethane Pipeline

The ethane pipeline, which supplies ethane from the Pemex processing plants located in the states of Tabasco, Chiapas and Veracruz to an ethylene and polyethylene plant located in the state of Veracruz, consists of an approximately 224 km pipeline comprised of three segments. The first segment has a design transportation capacity of up to approximately 52 MMcfd (0.6 MMThd), the second segment of up to approximately 152 MMcfd (1.8 MMThd) both as ethane gas, and the third segment of up to approximately 106 MMcfd (1.9 MMThd) as ethane liquid. The initial segment of this pipeline began commercial operation in January 2015, the second segment began commercial operation in July 2015 and the third segment began commercial operation in December 2015. Pemex TRI is the sole customer of this pipeline under a 21-year U.S. dollar-denominated take-or-pay capacity agreement, which is indexed to inflation.

TDF LPG Pipeline

The TDF pipeline system consists of approximately 190 km of twelve-inch diameter pipeline with a design transportation capacity of 34,000 Bbld (1.9 MMThd) of LPG, a pumping station near the pipeline's point of reception and a delivery facility with two storage tanks, with a combined capacity of 40,000 Bbl (2.2 MMTh). This pipeline, which was the first private LPG pipeline in Mexico, runs from Pemex TRI's Burgos LPG production area in the state of Tamaulipas to a delivery facility near the city of Monterrey in the state of Nuevo León. This pipeline is operated by Pemex TRI under an operation and maintenance agreement with Gasoductos de Chihuahua. The existing firm transportation services agreement with the TDF pipeline's sole customer, Pemex TRI, contracts 30,000 Bbld (1.6 MMThd) of aggregate average daily quantity, which is equal to the system's design transportation capacity, on a firm basis. The initial term of the agreement expires in 2027, but may be extended for a five-year period at Pemex TRI's option.

Guadalajara LPG terminal

LPG storage facility near Guadalajara, Jalisco consists of four storage tanks, each with a capacity of 20,000 Bbl (1.1 MMTh), ten loading bays and an interconnection to Pemex TRI's separately-owned LPG pipeline system. The facility was completed in December 2013 and replaced an LPG storage facility owned by Pemex TRI that was located within Guadalajara. The facility is operated by Pemex TRI and serves the Jalisco market. The Company has entered into an LPG Storage Services Agreement with Pemex TRI, pursuant to which the Pemex TRI contracts the full capacity of the terminal. Under the terms of this agreement, Pemex TRI pays a fixed monthly fee, regardless of the facility's use and a variable fee based upon its actual monthly use of the terminal services. This agreement has a 15-year term and expires in 2028.

The following map shows the location of the Guadalajara LPG terminal:

Terms of the Company's DEN joint Venture Agreement with Pemex TRI

On November 2017, the Company completed the acquisition of the remaining 50% of the capital stock of Ductos y Energéticos del Norte owned by Pemex TRI. See "The Issuer - the Company's History and Evolution - Relevant Events."

Prior to the acquisition of a 50% stake in Pemex TRI, the relationships between the joint venture partners with Pemex Gas, now Pemex TRI, were governed by the provisions of the corporate bylaws of DEN, the company that held a 50% stake in the joint venture with TAG Pipelines Norte. The remaining 50% stake in the joint venture with TAG Pipelines Norte is held 45% by BlackRock and 5% Pemex TRI through a subsidiary named TAG Pipelines. Below is a summary of the main terms of the DEN bylaws.

a. Shareholders and voting rights. The parties holding the capital of the Joint Venture are divided into "Series A" shares and "Series B" shares. Both series confer equal rights on their holders. Pemex TRI holds the "Series A" shares, while the Company holds the same number of "Series B" shares. The partners are entitled to issue one vote for each

Mexican peso of their shares, which corresponds to the same number of votes by both Pemex TRI and for the Company.

b. Administration. The administration of the Joint Venture is carried out by a board of directors comprising six members. Each partner has the right to appoint three members and their respective alternates. If at any time one partner should hold more than 50% of the Joint Venture's paid-in capital, that member will be entitled to appoint an additional member and his alternate. Every year, the board of directors will appoint the chairman, vice-chairman and secretary of the board. The offices of president and vice-president will alternate between the directors appointed by the "Series A" partners and the "Series B" partners. Should any of the partners acquire, at any time, more than 50% of the paid-in capital of the Joint Venture, that member will have the right to appoint the president, the vice-president and the secretary of the board of directors. The board will have the right to appoint and remove from their positions the top executives of the Joint Venture.

Generally speaking, as long as both the Company and Pemex TRI each hold 50% of the Joint Venture, the resolutions of the shareholders' meeting and the board of directors (including any additional capital contributed) will be valid only if the representatives of both parties are present at the shareholders' meetings and the meetings of the board of directors. If, however, the "Series A" or "Series B" shareholders represent more than 50% of the paid-in capital of the Joint Venture, their resolutions will be valid when adopted by a majority vote, with the understanding that the resolutions regarding increases in paid-in capital, the issuance of bonds, the change of the corporate purpose or the nationality of the Joint Venture, the dissolution of the Joint Venture, its transformation into a different type of corporation, or any merger or modification of its bylaws, will be valid only when adopted by a yea vote of a simple majority of the paid-in capital.

In the event that the partners fail to reach a unanimous agreement on a given issue, despite their reasonable efforts to do so, said issue will be submitted to the jurisdiction of the Mexican courts.

c. Transfer of shares. Any sale, assignment, transfer or attachment of the shares of a partner is subject to the prior, written consent of the other partner. In addition, each partner shall have the right of first refusal for the purchase of the shares that another partner wishes to transfer to third parties.

The corporate structure of TAG Norte, the joint venture with Pemex TRI

In March 2015 DEN, Pemex TRI and TETL (currently owned by Blackrock) signed an agreement (the "TAG Pipelines Norte Contract") for their participation in TAG Pipelines Norte and the Los Ramones Norte Pipeline. Following is a description of the most important terms of the TAG Norte Contract:

a. Voting rights. The partners shall have one vote for each peso of capital they have paid into the corporation. The quorum for convening a shareholders' meeting is 50%, and the decisions on general issues will be adopted by a yea vote of at least 50% of the paid-in capital, while extraordinary issues such as the approval of modifications in the bylaws shall be approved by a yea vote of at least 75% of the paid-in capital.

b. Management: The board of directors will comprise six regular members and their alternates. Each partner representing at least 16.5% of the paid-in capital shall have the right to appoint a member of the board of directors. However, Pemex may appoint a member of that board provided that (directly or indirectly) 100% of TAG Pipelines participates, and that at least 5% of TAG Pipelines Norte's paid-in capital participates. If at any time, any partner should acquire more than 50% of TAG Norte's paid-in capital, then the board of directors shall comprise five members, with the remaining partners, holding 17% of the paid-in capital, may appoint a member. The quorum for convening a meeting of the board of directors is 50% of its members. Its decisions will be adopted by a simple yea vote of its members. However, with regard to such extraordinary issues as the modification of the annual budget, the signing of contracts contemplating payment obligations of more than one million dollars, et al, a 75% yea vote of the members will be required.

c. The Oversight Committee. The partners of TAG Norte shall create an oversight committee to ensure that the actions of the board of directors comply with applicable corporate practices and with the laws by which the corporation is bound. The committee will comprise four members. Each partner holding 25% of the paid-in capital may appoint a member of the committee. However, Pemex may appoint a member of that board provided that (directly or indirectly) 100% of TAG Pipelines participates and at least 5% of TAG Pipelines Norte's paid-in capital participates. If at any time, any partner should acquire more than 50% of TAG Norte's paid-in capital, then the board of directors shall comprise five members, while the remaining partners holding 17% of the paid-in capital may appoint a member. The quorum for convening a meeting of the board of directors will be a simple majority of its member, and its decisions will be adopted by the yea vote of a simple majority of those present.

d. Transfer of shares: Any assignment, transfer or attachment of shares requires prior written consent, unless it involves a transfer in favor of a related party or permitted assignee and there has been no change in the final beneficiary. In addition, each partner shall have the right of first refusal for the purchase of the shares that another partner wishes to transfer to third parties.

e. Issues regarding the subsidiary: The issues agreed to by TAG Norte will be adopted in the same sense as with TAG Pipelines Norte.

Corporate structure of IMG, the joint venture with TransCanada

The relations between the partners of the joint venture with TransCanada are governed by (i) IMG's bylaws and (ii) the agreements between the Company and TransCanada. Following is a summary of the key terms of those bylaws and of the agreement between the partners:

a. Shareholders and voting rights. Under the agreement between the partners, the partners have the right to one vote for each peso they have contributed to IMG's paid-in capital. However, it has been agreed that certain issues may be approved only by (i) unanimous vote, (ii) a supermajority (66&2/3%) or (iii) a simple majority (more than 50%) of IMG's subscribed and paid-in capital.

b. Management. The management of IMG is the responsibility of a board of directors comprising five members. TransCanada has the right to appoint three members and their respective alternates, while the Company has the right to appoint two members and their respective alternates. If at any time the configuration of the holding of IMG's paid-in capital should change, an adjustment will be carried out in the number of members corresponding to the distribution of IMG's paid-in capital. TransCanada shall have the right to appoint the president and the secretary (a non-member) of the board of directors. It has been generally agreed that certain issues may be approved only by (i) unanimous vote, (ii) a supermajority (66&2/3%) or (iii) a simple majority (more than 50%) of the members of the board of directors.

c. Procedure for the resolution of disputes. In the event of a dispute, said dispute shall be submitted (i) to the executives of the partners appointed for this purpose by each of the partners, and (ii) if no agreement is reached, to arbitration in Mexico City pursuant to the rules of the International Chamber of Commerce and applicable Mexican law.

d. Transfer of shares. With certain exceptions such as sales between affiliates, any sale, assignment, transfer or attachment of the shares of a member is subject to the right of first refusal of the remaining member to purchase the shares that the other member wishes to transfer to third parties.

e. Cost/risk behavior. Both the Company and TransCanada have agreed to share between them, pursuant to their respective holdings in IMG, the financial obligations of the joint venture with regard to the performance of the project.

f. Supervisory and Maintenance Services. The parties have agreed that an affiliate of TransCanada will assume the supervisory and maintenance obligations of the project.

LNG Business

Overview

The Company's LNG business consists of two related operations. The first of these is the Company's LNG storage and regasification terminal in Ensenada, Baja California, which stores LNG on behalf of customers, regasifies customers' LNG and delivers the resulting natural gas to the Gasoducto Rosarito pipeline system. The Company's LNG terminal provides its customers with a secure delivery point for LNG and the option value of access to the Mexican and Southern California natural gas markets.

The second operation is IEnova Marketing, the Company's subsidiary that has contracted 50% of the capacity of the Company's LNG terminal. This subsidiary has contracted to purchase LNG, which it stores in LNG terminal until it is regasified and used to serve its customers, including the CFE's Presidente Juárez power plant and the Company's Termoeléctrica de Mexicali power plant.

LNG Terminal

LNG is natural gas that has been cooled to approximately -160° Celsius in order to condense the gas into a liquid. Liquefaction of natural gas reduces its volume by a factor of 600, making it more feasible to transport by ship or truck.

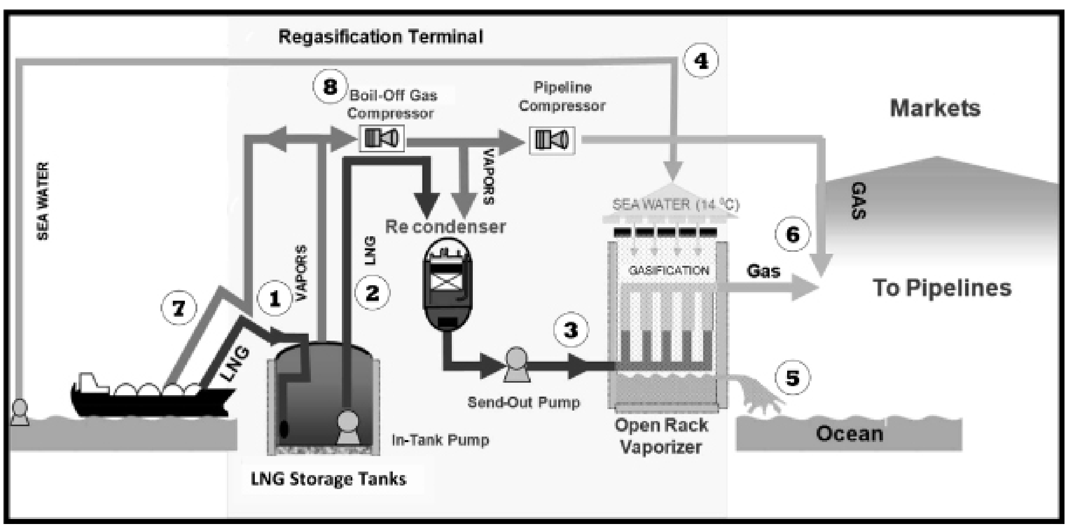
The Company's LNG terminal consists of:

- one marine berth for the unloading of LNG cargoes by cryogenic LNG marine tankers;
- two insulated full-containment LNG storage tanks with an aggregate of 320,000 m^3 (73.3 MMTh) of storage capacity; and
- a nitrogen generation facility that generates nitrogen from the surrounding air via membrane separation, which is then injected into the regasified LNG, when necessary, to lower its heating content to meet pipeline gas quality standards in Mexico and the United States.

The Company's LNG terminal has firm natural gas send-out capacity of 1,300 MMcfd (13.5 MMThd). The Company's LNG terminal can also be expanded to accommodate an additional marine berth and two additional LNG storage tanks in the future.

Operation of The Company's LNG Terminal.

The diagram below illustrates the operation of the Company's LNG terminal. First, the customers deliver LNG from cryogenic LNG tankers to the terminal for storage in the tanks (see 1 below), where they maintain ownership of the LNG that the Company stores on their behalf. When the customers request natural gas from the Company, it moves LNG from the storage tanks through a send-out pump (see 2 below) to open rack vaporizers (see 3 below), where the LNG is regasified using heat drawn from ambient-temperature seawater that the Company pumps through the vaporizers (see 4 below). After flowing through the vaporizers, the sea water used to regasify the LNG is returned to the ocean (see 5 below) at an average temperature of only 2° Celsius less than when it entered the LNG facility, in compliance with local and international standards. When the LNG regasification process is complete, the Company delivers its customers' resulting natural gas to Gasoducto Rosarito pipeline system (see 6 below).



Because there is a large temperature difference between the LNG and ambient conditions, a very small portion of this LNG is continuously converted back to a gaseous state as the LNG warms. This gas is referred to as boil-off gas. As indicated in the above diagram, the boil-off gas can either be returned to the Company's customers' cryogenic LNG marine tankers, if they are still in the marine berth (see 7 above), or sent to a boil-off gas compressor (see 8 above). Once the gas passes through the boil-off gas compressor, it can be delivered to Gasoducto Rosarito pipeline system.

All electricity required for the operation of the Company's LNG terminal is generated on-site through five gas-fired combustion turbine generators, which are powered by a small amount of natural gas resulting from boil off and/or regasification, which all of the Company's customers provide to the Company at no charge whenever they store LNG in the terminal. The Company's LNG terminal has a redundant design with respect to most of its major components such as pumps, vaporizers and combustion turbine generators, which allows it to continue operating at its firm send-out capacity while conducting maintenance on, or experiencing an unplanned outage of, those components.

Internal temperature of the Company's LNG storage tanks.

In order for the Company's LNG terminal to be operational, and in order to prevent equipment damage that could be caused by the thermal expansion of certain components during warming, the internal temperature of the Company's LNG terminal storage tanks must be maintained at all times at a temperature no higher than approximately -160° Celsius. To keep the storage tanks at the required temperature, the Company must constantly maintain a minimum volume of LNG in the terminal. Because of current natural gas market conditions, the delivery of LNG cargoes to the LNG terminal by the capacity holders has been limited. Only one of the capacity holders, the Company's subsidiary IEnova Marketing, has delivered LNG cargoes to the terminal, which it purchases from one of the Company's U.S. affiliates, Sempra Natural Gas, pursuant to a long-term LNG purchase and sale agreement. Sempra Natural Gas has agreed to make a limited number of LNG cargoes available to IEnova Marketing for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. IEnova Marketing has agreed to use reasonable efforts to deliver minimum quantities of LNG to the Company's LNG terminal. The Company's LNG terminal's customers are not otherwise obligated under the terms of their firm storage services agreements to supply minimum quantities of LNG. If the Company is unable to obtain sufficient volumes of LNG from the capacity holders to maintain the minimum required internal temperature of the Company's LNG terminal, the Company will need to secure such volumes in the open market. See "Risk Factors – Risks Relating to The Company's business and Industry – The Company may be exposed to high costs to acquire LNG in order to maintain the operations of the Company's LNG terminal."

Location

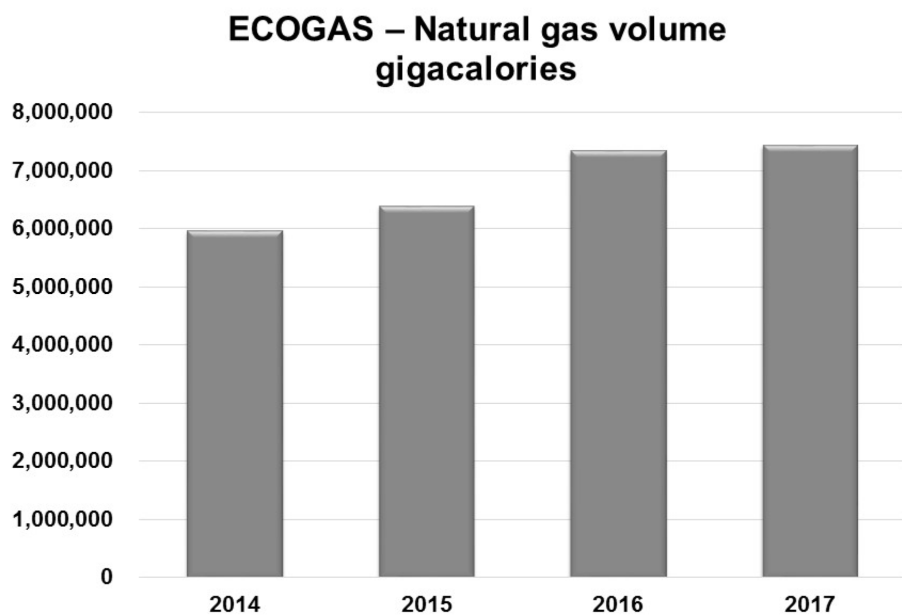
The following map shows the location of the Company's LNG terminal and the natural gas pipeline systems to which it is connected:

Natural Gas Distribution Business

Overview

The Company's subsidiary ECOGAS was awarded the first distribution permit given to a private company to build and operate a natural gas distribution system in Mexico under the 1995 natural gas regulation. Through its approximately 3,852 km of pipelines, as of December 31, 2017 the ECOGAS distribution system served in excess of 120,000 residential, commercial and industrial customers in northern Mexico, with operations in the distribution zones of Mexicali, Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna–Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

In addition to receiving the first distribution permit under the 1995 natural gas regulation, the Company became the first private distribution company to meet its build-out obligations to the Mexican government in terms of amount of investment and number of customers. Since the ECOGAS distribution system became operational, the Company has endeavored to market natural gas as a better alternative to LPG for industrial, commercial and residential consumption in the Company's markets. The following chart illustrates the growth in volume of natural gas sold by the distribution business over the last four years.



The natural gas distribution business includes the following key activities:

- Purchasing natural gas from the Company's suppliers;
- Receiving natural gas into the Company's system and transporting it through the distribution network
- Maintenance of the Company's pipelines and other equipment;
- Connecting the Company's customers to the ECOGAS system;
- Delivering natural gas into the Company's customers' homes and businesses;
- Metering, invoicing and collecting payment for gas delivered;
- Customer service activities for the Company's existing customers; and
- Marketing activities to increase the Company's customer base.

The Company’s revenues are derived from service and distribution fees charged to its customers through monthly invoices. The purchase price the Company pays for natural gas is based on international price indexes and is passed through to its customers. However, the Company enters into hedging transactions with respect to these prices to reduce potential volatility in the price for natural gas that its customers ultimately pay. The service and distribution fees charged by the ECOGAS system are regulated by the CRE, which performs a review of rates every five years and monitors prices charged to end-users. The rates for the Company’s Mexicali, Chihuahua and La Laguna–Durango distribution zones are currently under review by the CRE. The current structure of natural gas prices minimizes the market risk to which the Company is exposed, as the rates are adjusted regularly based on inflation or fluctuations in foreign exchange rates. The adjustments for inflation include cost components incurred both in Mexico and the United States, so that United States costs can be included in the final rates.

The following map shows the location of each of the distribution areas serviced by ECOGAS distribution: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

The following table contains a summary of the principal characteristics of the ECOGAS service areas as of December 31, 2017:

	Mexicali	Chihuahua	La Laguna-Durango	Total
Length of pipelines (km)	562	2,232	1,058	3,852
Number of customers:				
Residential	15,722	71,131	30,510	117,363
Commercial/industrial	345	1,928	833	3,106
Throughput (MMcfd):				
Residential	483	3,538	875	4,896
Commercial/industrial	27,562	36,883	11,487	75,932

Natural Gas and The Company's Market Opportunity

The Company believes that its customer service at each stage of the natural gas service cycle has led to high levels of customer satisfaction that differentiate the Company's business from traditional Mexican LPG distributors, which historically have held a strong position in the Mexican gas market, in particular with respect to residential heating. The Company believes its excellent customer service and quick response time are key competitive advantages that have helped the Company establish a reputation for quality and build customer loyalty.

Natural Gas Customer Arrangements

The Company's residential customers are substantially all the customers (97.4% in terms of number of accounts), and contribute 45.3% of the profit margin of the distribution business as of December 31, 2017. The Company does not typically enter into long-term agreements with residential customers, and they pay the rates for distribution services that are established by the CRE. The Company invoices these customers on a monthly basis, and their service can be terminated by them or the Company at any time.

The commercial and industrial customers together account for approximately 2.6% of customers (in terms of number of accounts), but are responsible for approximately 93.9% of systems' aggregate throughput volume and over 54.7% of the distribution business profit margin as of December 31, 2017. The Company has entered into long- term supply agreements with certain of these customers; while the CRE sets the maximum rate the Company can charge for distribution service, the Company may negotiate a rate that is at a discount to the maximum authorized rate, in exchange for a long-term obligation from these customers to purchase contractual minimum volumes. In certain cases customers are required to provide the Company with guarantees in the form of letters of credit or cash deposits.

Refined Products Business

In July 2017, the Company was awarded a concession by the Port Authority (Administración Portuaria Integral) of Veracruz, for the construction and operation of a new marine terminal in the New Port of Veracruz. It will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel, and it will have a capacity of approximately 1,400,000 Bbl. In August 2017, the Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero Energy Corporation for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Mexico City with capacities of approximately 500,000 and 800,000 Bbl, respectively. The estimated investment is USD$155 million for Veracruz and a total of USD$120 million for the two in-land terminals. The Company expects that the marine terminal will commence commercial operations in the second half of 2018 and the two in-land terminals will commence commercial operations in the first half of 2019.

Power Segment Overview

The power segment includes a natural-gas-fired, combined-cycle power generation facility and two wind power generation facilities. A more detailed description of the businesses within power segment follows.

Natural Gas Fired Power Generation Business

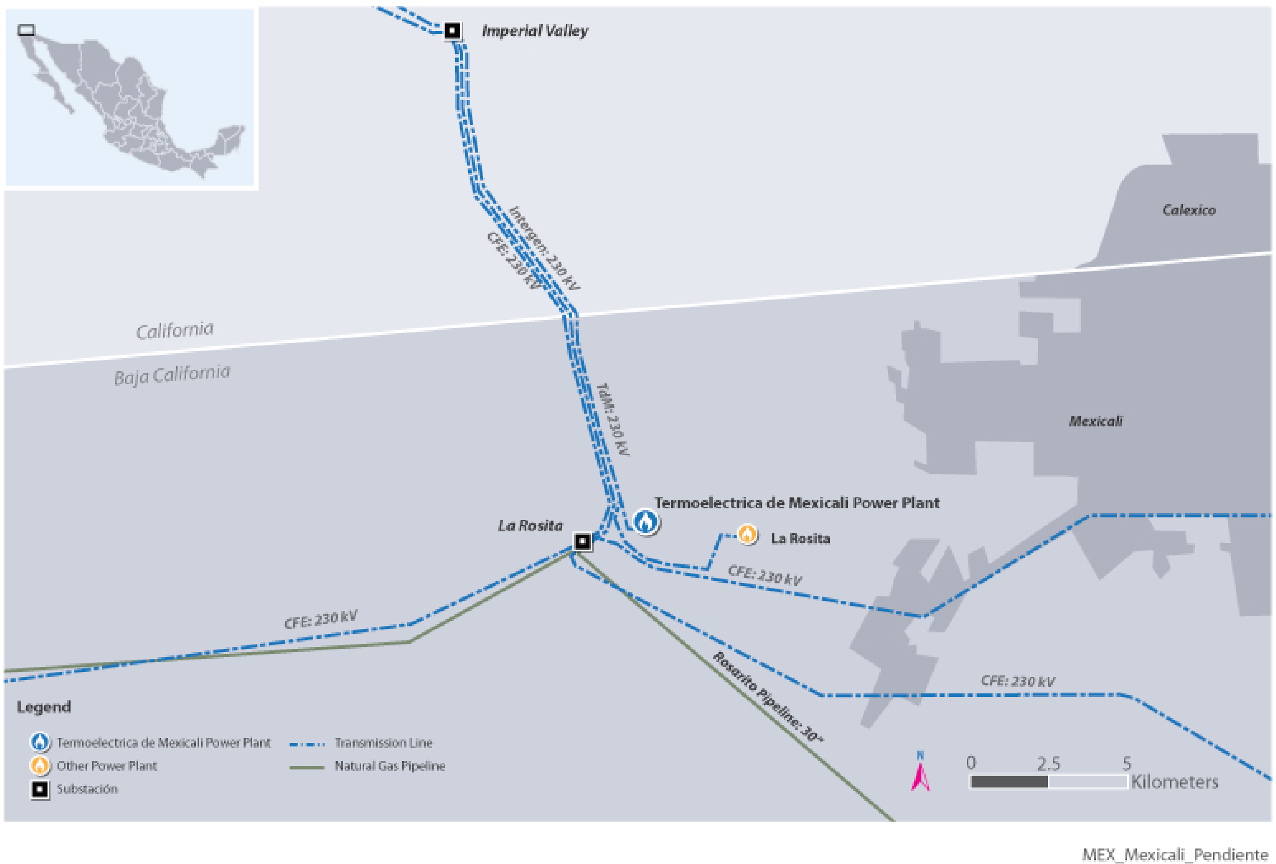
Termoeléctrica de Mexicali

The Company owns and operates the Termoeléctrica de Mexicali power plant in Mexicali, Baja California, adjacent to the Mexico—U.S. border. This 625 MW, natural gas-fired, combined-cycle power generation facility commenced commercial operation in June 2003 and is well-positioned to access both the United States and Mexican electricity grids. The power plant is connected to the Gasoducto Rosarito pipeline system, which allows it to receive regasified LNG from the Company's LNG terminal as well as gas supplied from the United States on the North Baja pipeline. Termoeléctrica de Mexicali's customer base is currently comprised of California utilities, California municipalities and energy service providers.

This facility is a modern, efficient, combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and California, it has General Electric MS7241FA gas turbines, inlet chilling and evaporative cooling components. The design of the facility also contributes positively to the environmental quality of the local area by using untreated sewage water for cooling that comes from the Zaragoza Lagoons in Mexicali, located 13 km from the site. The sewage water is received in the facility's water treatment plant and treated in biological reactors. This process eliminates biological contaminants and significantly reduces other contaminants in the water such as nitrogen, phosphorus, heavy metals, and agricultural and industrial chemicals, and salts. The treatment of this water improves water quality in the nearby irrigation canal (Río Nuevo).

Termoeléctrica de Mexicali is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California. While the entire output of the plant is currently sold to the U.S. grid, the physical interconnection may be modified by building a two kilometer transmission line, subject to the receipt of the requisite permits, including those granted by the CRE, so that all or a portion of the plant's output could be delivered to the CFE's La Rosita substation.

The following map shows the location of the Termoeléctrica de Mexicali power generation facility:



Termoeléctrica de Mexicali, Key Arrangements

Power Purchase Agreements

The Company is party to an energy management services agreement with the affiliate, Sempra Generation, with respect to the electricity generated at the Company's Termoeléctrica de Mexicali power plant. Pursuant to this agreement, which is effective as of January 1, 2012, Sempra Generation has marketed and served as scheduling coordinator for the Company's electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on the Company's behalf. Under this agreement, the Company reimburses Sempra Generation's expenses in connection with these services and pays Sempra Generation an annual energy services fee based on the level of service provided to the Company's Termoeléctrica de Mexicali power plant (depending on, among other factors, the amount of energy scheduled and sold by Sempra Generation). The term of this agreement runs through 2017. This agreement replaced a prior agreement with Sempra Generation for the full capacity of the Termoeléctrica de Mexicali power plant. Whereas under the prior agreement Sempra Generation reimbursed the Company for the natural gas required for electricity generation at the power plant, under the current energy management services agreement the Company bears the cost of the natural gas used to fuel the power plant, and the Company sells the electricity generated by the power plant on a merchant basis, which creates greater volatility in the income generated by this facility.

Natural Gas Purchase Agreement

The Company supplies between 67 MMcfd (0.7 MMThd) and 101 MMcfd (1.1 MMThd) of natural gas to the Termoeléctrica de Mexicali power generation facility, which the Company purchases directly from the Company's subsidiary IEnova Marketing. Under a previous agreement between the Company and JPM Ventures Energy, JPM Ventures Energy sold natural gas to the Company at a price that was less than the rate the Company would have otherwise had pay to have natural gas delivered to the facility. The Company's costs have increased as a result of the expiration of this agreement in September 2014.

Wind Power Generation Business

Energía Sierra Juárez

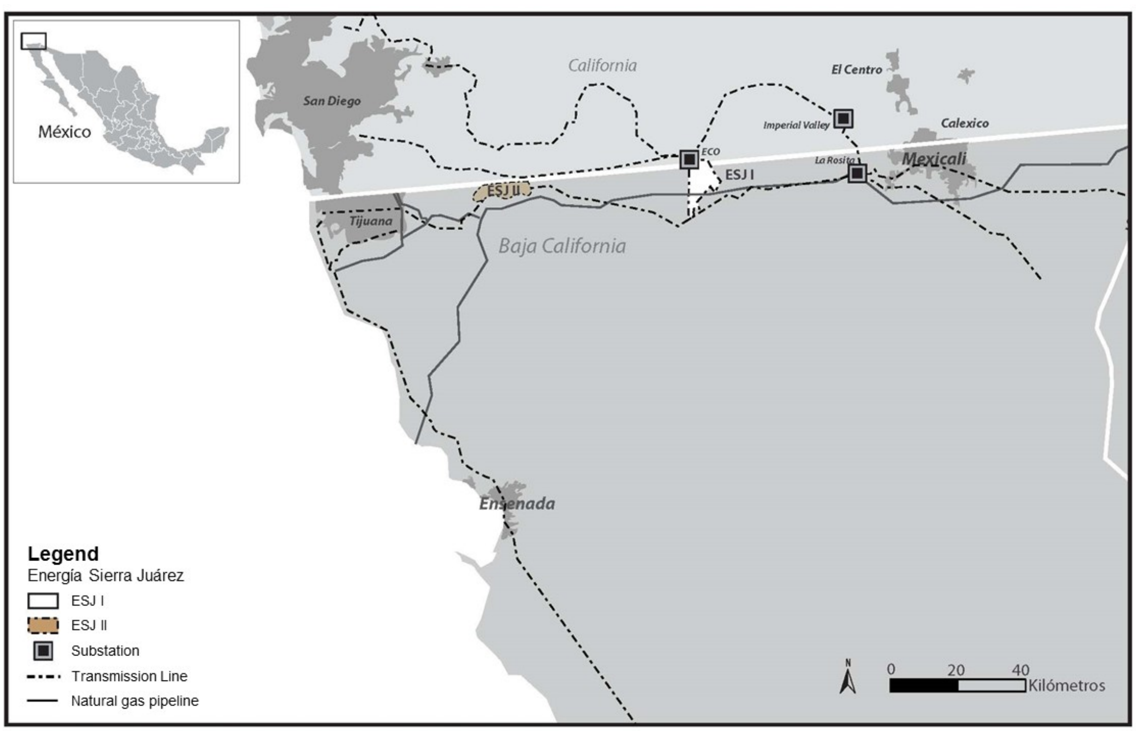
The Energía Sierra Juárez wind powered generation project is located along mountain ridges in the Sierra de Juárez Mountains in Baja California, Mexico. This region has one of the strongest wind resources on the west coast of North America. The initial phase of this potential project is located about 112 km south of San Diego. It interconnects to the existing Southwest Power link at the Company's affiliate SDG&E's East County Substation in eastern San Diego County via a new cross-border transmission line. It could also potentially connect directly with the Mexican power grid.

The initial phase of Energía Sierra Juárez generates up to 155 MW from 47 wind turbines, or enough power for approximately 65,000 average U.S. homes. Based on five years of meteorological data, the Company expects that these wind turbines will operate at a net capacity factor of between 34% and 36% (net capacity factor is a measure of the percentage of peak power a facility generates on average over an extended period of time, reflecting wind resource availability and other factors). Electricity generated from the initial phase of Energía Sierra Juárez is sold entirely to the Company's affiliate SDG&E pursuant to a 20-year power purchase agreement. In July 2014 the Company sold a 50% interest in the initial phase of this project to certain affiliates of InterGen.

In November 2017, the Company executed a 20-year power purchase agreement with San Diego Gas & Electric Company. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California. The project will have a capacity of 108 MW and will require an investment of approximately USD$150 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission (obtained in January 2018) and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

The Company believes that utilities located throughout California are prime potential customers for the power generated by this project, and if the Company obtains additional permits it has the potential to also sell this power in the Mexican wholesale market. California is one of the most politically supportive regions in the United States for renewable power generation development, with a legislated target for renewable energy generation of 33% of retail sales by 2020. Mexico is also politically supportive of renewable energies, and wind farms in particular.

The following map shows the approximate locations of Energía Sierra Juárez wind power generation facilities:



Key Arrangements

Power Purchase Agreement

All of the electricity generated from the initial phase of this project is supplied to SDG&E pursuant to a purchase agreement entered into in April 2011. The agreement has a term of 20 years from the date the Company first delivers electricity, and provides for a fixed payment per megawatt-hour, with adjustments for "time-of-day" factors.

Sale of Partnership Interest to InterGen

In April 2014, the Company entered into an equity purchase and sale agreement with InterGen pursuant to which the Company sold a 50% interest in the first phase of the Energía Sierra Juárez project to InterGen, thereby creating a 50/50 joint venture between us. The Company accounts for this joint venture under the equity method. As a condition to the sale of this equity interest the Company and InterGen entered into the joint venture agreements described below. In addition, the joint venture assumed the remaining obligation to the Company on a previous intercompany loan to the Energía Sierra Juárez project, which had a principal balance and interest outstanding at December 31, 2017 of USD$6.5 million. The loan accrues interest at a rate equal to 30-day LIBOR plus 637.5 basis points (7.75% as of December 31, 2017).

Project Financing Agreement

In June 2014, Energía Sierra Juárez, S. de R. L. de C. V., the Company's joint venture in charge of developing the first phase of the Energía Sierra Juárez wind power generation operation, entered into a USD$239.8 million project financing facility. The project financing facility was entered into with a group of five banks: Mizuho Bank, Ltd., as coordinating lead arranger, the NADB as technical and modeling bank, and NAFINSA, NORD/LB and SMBC as lenders. Use of resources was project construction.

Upon completion of the initial phase of the project in 2015, this financing arrangement became an 18-year loan. Pursuant to the terms of the agreement, this loan matures on June 30, 2033 and is repayable in bi-annual installments on June 30 and December 30 of each year) beginning on December 30, 2015. The loan accrues interest at a rate equal to the six-month LIBOR plus the margins specified in the following table:

Period	Margin Over LIBOR
June 2014 – June 2015	2.375%
June 2015 – June 2019	2.375%
June 2019 – June 2023	2.625%
June 2023 – June 2027	2.875%
June 2027 – June 2031	3.125%
June 2031 – June 2033	3.375%

The loan outstanding balance as of December 31, 2017, was USD$216.9 million. Additionally, under the same loan agreement, there were outstanding letters of credit totaling USD$29.4 million.

Joint Venture Agreements

In July 2014 the Company and InterGen entered into two joint venture agreements. These agreements govern the Company's relationship with InterGen as it relates to the management of the Company's joint venture and respective financial rights and obligations. In addition, these agreements set forth the agreed upon budget for the development of the initial phase of the project and the procedure for the approval of future development budgets.

The following is a summary of the material terms of the joint venture agreements between the Company and InterGen as they relate to the corporate governance of the joint venture.

a. Management. The joint venture is managed by a board of managers composed of four representatives (two appointed by each member). The board of managers may appoint officers to manage the affairs of the joint venture. Certain decisions may only be approved with the affirmative vote of either 55% or 75% of the members' equity participation by value.

b. Dispute Resolution Mechanism. If a deadlock between the members cannot be resolved following senior management negotiations and mediation, either member may be authorized by the joint venture agreements to offer to sell all of its equity interest or to purchase all of the other member's equity interest. Disputes not relating to matters requiring a 55% or 75% vote, which cannot be resolved through reasonable negotiations between the senior management of the parties, are resolved through binding arbitration.

c. Distributions. The joint venture agreements provide that any cash not required to service debt or otherwise pay the costs of the joint venture will be distributed to the members according to the credit agreement.

d. Transfers of Interests in the Joint Venture. The members may transfer their equity interests and interest in loans made by the members to the joint venture, provided that such member must transfer its entire interest to a single party if it effects any transfer, and provided that the transferee must become a party to the joint venture agreement. In addition, each member has a right of first refusal in the event the other member desires to transfer its interest to a third party.

Ventika

In December 2016, the Company acquired 100% of the equity interests of Ventika. The project is located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. It is powered by 84 turbines and provides an aggregate of up to 252 MW of generating capacity. The price paid was USD$920 million, including USD$435 million in cash and USD $485 million of existing bank indebtedness.

The following map shows the location of Ventika:

The project was jointly developed by Fisterra Energy (a fund from Blackstone Energy Partners) and Cemex (an international company). It began operations in April 2016. For a description of Ventika's construction financing, see: "*Management's Discussion and analysis of Financial Condition and Results of Operations - Liquidity and Financing Sources - Ventika Credit Agreement and Project Financing*."

Currently, an affiliate of Acciona, a leading global company in the development and management of renewable energy assets, provides operation and maintenance services to the facilities, in accordance with the operation and maintenance contracts that are renewable every five years. Asset management services are provided by CEMEX in accordance with asset management agreements with a term of five years, which are renewed automatically for equal periods.

Key Arrangements

Power Purchase Agreement

Ventika has power supply agreements that, when considered jointly, constitute agreements to purchase 100% of the capacity of the wind farms for 20 years beginning April 2016. Such agreements have been entered into with subsidiaries, affiliates and related parties of Femsa, Cemex, FCA, DeAcero and Tecnológico de Monterrey. The agreements are denominated in U.S. Dollars at fixed prices, and they escalate annually at 2.5%.

The main characteristics of the power supply agreements (PPAs) that Ventika maintains are that (i) provided that Ventika delivers the power to CFE's substation, each counterparty has the obligation to consume pre-agreed minimum amounts or energy, and a failure to do so requires such counterparty to cover the respective tariffs (take-or-pay); (ii) any surplus amount to the agreed amounts under the power supply agreements may be acquired by the counterparties at a discount rate, or may be directly supplied to CFE at market prices; (iii) include pre-arranged Dollar denominated tariffs; and (iv) subject to various rules, conditions and specific situations for each agreement, the counterparties to such agreements may not terminate them without breach by Ventika, and if they do terminate such counterparties would be contractually obligated to pay to Ventika, termination payments on the amounts established in such financings, and the minimum purchase obligations agreed in the relevant contract that are pending exercise and payment.

Since CFE requires capacity payments to industrial and commercial users of power, such capacity acquired by Ventika's counterparties may be credited by the CFE. Under the power supply agreements, each counterparty of Ventika shall undertake such capacity payments to Ventika.

Since the interconnection point is the sale point, through the interconnection agreement with CFE, transmission services and interconnection of electricity that Ventika collects are equal to those collected by CFE for such services.

Operation and Maintenance Agreement

The operator, an affiliate of Acciona, provides Ventika with operation and maintenance services for a 5 year term, automatically renewed for equal periods until reaching 20 years of services. Through these agreements, the Operator guarantees the availability of each wind farm within the limits established in such agreements and for the effective term of each agreement. According to these agreements, the Operator renders operation and management services to Ventika that are standard for projects of this kind, and the Operator is obligated (within the limits of each agreement) to operate the wind farms in accordance with applicable law and with the different permits and authorizations that apply to each project, including contracts and rights of use for the land, Ventika's operational plans and instructions, interconnection contracts, and other applicable contracts and documents. The Operator is responsible for obtaining the necessary personnel for the performance of its services and for obtaining proper insurance for the performance of its services.

The obligations of the Operator under these contracts are guaranteed by Acciona Energía, S.A., for up to the limits agreed in each contract and in the relevant guarantee.

The payment mechanism includes an annual fee that is adjusted depending on the operation of the wind farms. This benefit-sharing mechanism is an incentive for the Operator to gain more real availability compared to the one guaranteed in the agreements. The penalty for Acciona is the payment of unearned income due to the lack of the guaranteed availability, for up to a maximum of the annual payment for operation and maintenance, as agreed in such contract.

Monitoring and the control of operations of each turbine is carried out through the SCADA system. Routine maintenance is carried out by Acciona's staff.

Asset Management Agreement

Ventika maintains asset management services agreement with Cemex. Through each of these agreements, Cemex agrees (i) to render management and surveillance services over the assets, inventory, accounts receivable, invoicing and other assets and services; (ii) to cause the performance of the principal agreements executed by Ventika, including those for engineering, procurement and construction, operation and management, financing, interconnection, communication and management of financial issues with lenders, management of the self-supply and, power supply agreements, etc. The term of this agreement is of 5 years starting from the commercial operation date of each agreement (April 2016), with automatic renewal for a period of 5 years.

Credit Agreement, project finance

For the construction and start of operations of the wind farms, each of Ventika I and Ventika II obtained a senior project finance loan for the total aggregate amount of USD$485 million. The creditor banks are: NADB, Banobras, Nafinsa, Bancomext, and Santander México. As of December 31, 2017 the balance is USD$464.6 million.

As a result of the Transaction, payment obligations for each financing remain with each of Ventika I and Ventika II, respectively, although Controladora Sierra Juárez shall assume certain rights and obligations in accordance with the different financing documents, in direct substitution of the Minority Shareholders and Fisterra (as hereinafter detailed).

All the outstanding capital stock of Ventika I and Ventika II, as well as substantially all of their assets, guarantee the payment obligations under Ventika I and Ventika II financing. The financing is project finance and neither IEnova nor Controladora Sierra Juárez will assume a direct payment obligation to the lenders.

Tepezalá Solar

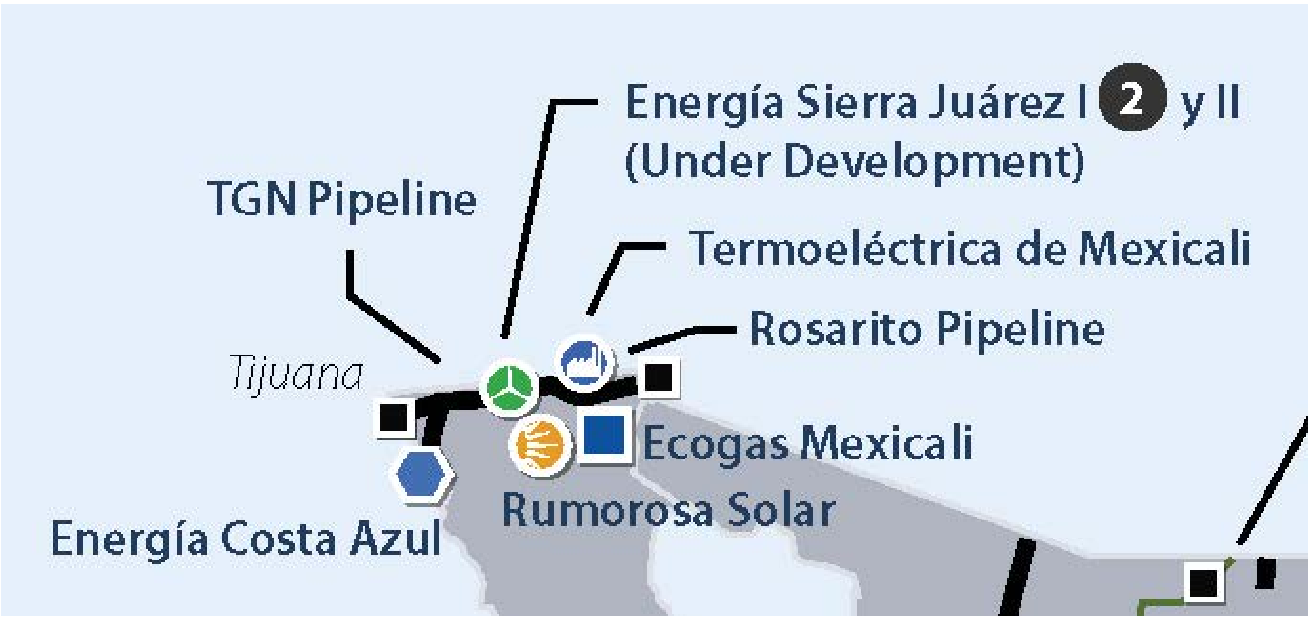
In January 2017, the Company announced the execution of a 20-year power purchase agreement and two 15-year power purchase agreements with the CFE, for the sale of the energy generated by the 100 MW_{AC} Tepezalá Solar project to be located in the State of Aguascalientes. The agreements include 20 years for the clean energy certificates and 15 years for the capacity. The Tepezalá Solar project will be developed and constructed by the Company in collaboration with Trina Solar (NYSE: TSL), a world leader in solar energy, who will have a 10% interest in the project. The company expects that the Tepezalá Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$100 million.

The following map shows the location of Tepezalá Solar:

Rumorosa Solar

In January 2017, the Company announced the execution agreements with the CFE, for the sale of the energy products generated by the 41 MW_{AC} Rumorosa Solar project to be located in the State of Baja California near the Energía Sierra Juárez wind farm. The agreements include 20 years for the clean energy certificates and 15 years for the energy. The company expects that the Rumorosa Solar project will start commercial operations in the second quarter of 2019 and have estimated investment of approximately USD$50 million.

The following map shows the location of Rumorosa Solar:



Pima Solar

In March 2017, the Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW_{AC} Pima Solar project. The estimated commercial operations date is the fourth quarter of 2018, and the Company's investment in this project is expected to be approximately USD$115 million.

Don Diego Solar

In February 2018, the Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new 125MW_{AC} solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019 with an estimated investment of USD$130 million.

The following map shows the locations of Pima Solar and Don Diego Solar:

Real Property and Land-Use Rights

Gas Segment

Pipelines Business

The real property of the Company's pipelines business falls mainly within three categories: (1) easements (*servidumbres de paso*) contracted with private and communal landowners (*ejidos* or *comunidades*); (2) road crossings, rail road crossings, water body crossings and other state-owned properties and/or infrastructure used under permits acquired from federal, state and municipal government entities; and (3) leased properties, properties held under usufruct and properties the Company owns, which are used primarily to install above-ground facilities such as main line valves, metering stations and compression stations. The Company believes it holds satisfactory title to the land it owns. The Company has leased properties for many years without any material known challenge relating to land title where these assets are located, and the Company believes that the Company has satisfactory leaseholds to such land. The Company has no knowledge of any material challenge to the underlying title of any material lease, easement, right-of-way, permit or usufruct held by it, and the Company believes that it has satisfactory title to all of its material leases, rights-of-way, permits and usufructs.

LNG Business

The Company's LNG terminal is located on 4,700 acres (1,902 hectares) of land owned in a relatively remote, previously undeveloped area of the Baja California coast. The terminal's marine facilities include a single jetty and berth with provisions to install a second jetty and berth. The berth is protected from the open ocean by a 648 meter long breakwater, which is 38 meters wide, extends 4.5 meters above the mean low water level, and consists of 12 caissons. The water depth is 25 meters and the marine facilities have been approved by the CRE to accept LNG ships that have a capacity of 70,000 m^3 to 217,000 m^3 (16.0 MMTh to 49.7 MMTh). A portion of this land has been leveled and graded for the potential expansion of the facility to include two additional LNG storage tanks. The Company also holds a 30-year concession for the occupation and use of federal maritime terrestrial zone adjacent to its property, which is subject to periodic renewals. The concession agreement covers a jetty and berth, among other infrastructure ancillary to the LNG terminal. The Company is currently engaged in disputes regarding its title to the properties on which the Company's LNG terminal is located. See "– Legal, Administrative and Arbitration Proceedings – Legal Proceedings Relating to The Company's LNG Terminal."

Natural Gas Distribution Business

The real property of the natural gas distribution business principally consists of easements, rights-of-way, permits, licenses and leases from governmental authorities or private property owners. The pipelines of the natural gas distribution system typically run along public roads and in such instances the Company pays the local municipality for the right to maintain and operate the Company's distribution system along such roads. Where the pipelines of the distribution system enter the property of the Company's customers, the Company has easements allowing the Company to access their property, as well as to maintain and operate the distribution system. In the case of La Laguna – Durango and Chihuahua distribution zones, the Company also leases some rights-of-way from Pemex. Approximately 96% of the total length of the Company's pipelines network is underneath public roads. The Company has no knowledge of any material challenge to (1) any material easement, right-of-way, permit, license or lease held by us, or (2) its title to any material easement, right-of-way, permit, license or lease, and the Company believes that the Company has satisfactory title to all of its material easements, rights-of-way, permits, licenses and leases. In addition, the Company leases an aggregate of approximately 190,000 square feet (17,600 meters) of office and commercial space in Chihuahua, Torreón and Mexicali, for approximately USD$0.3 million per year.

Power Segment

The Company's Termoeléctrica de Mexicali power plant owns approximately 75.6 acres (30.6 hectares) of real property located approximately 15 km west of Mexicali, Mexico and five km south of the Mexico–U.S. border. The plant and ancillary assets, including the sewage-water treatment plant, are located on property owned by the Company. The Company also holds rights of way obtained from the U.S. Bureau of Land Management with respect to the property upon which the generation tie-line runs into the United States to connect the power plant to the Imperial Valley substation. The Company holds title to various permits and agreements relating to certain rights-of-way for the aqueduct that services the power generation plant, including those for the occupation and crossing of public lands.

With respect to the Energía Sierra Juárez wind project, whose the initial phase started operations in 2015, the Company entered into a lease agreement in November 2006 with Ejido Jacume, a group of approximately 74 individual landowners, on which the Company has built the initial phase of this project. Under this arrangement all structures and improvements remain the Company's property and may be removed at the end of the lease. The Company also holds a right of first refusal to purchase the land in the event of an intended sale by the lessors. Each lease is for an initial term of 30 years and may be renewed for an additional 30-year period

The agreement with Cordillera Molina Ejido for the lease of approximately 348,418 acres (141,000 hectares) was terminated automatically in the first half of 2017, and the Ejido Sierra de Juárez for the lease of approximately 180,386 acres (73,000 hectares) was terminated automatically in the second half of 2017 by Energía Sierra Juárez Holding, pursuant to its rights in said contracts.

The expansion of the Energía Sierra Juárez wind generation facility for the supply of electricity to San Diego Gas & Electric Company, pursuant to the electricity supply contract signed by Energía Sierra Juárez 2 US, LLC on November 16, 2017, is planned to be located in the Ejido Jacumé leased area.

With respect to the Ventika wind power generation facilities, the land use rights were negotiated directly with the owners of 7,200 hectares where the plant is located and the required areas for substations and access roads. Land use rights include the right of passage with an indefinite term, as well as usufruct with a validity of 20 years, which are subject to subsequent renewal, according to current legal conditions.

Insurance

The Company's operations and assets are covered by insurance under policies that the Company believes are comparable with those maintained by other energy companies engaged in similar businesses with similar types of assets. These include: (1) general commercial and business liability insurance for bodily injury and property damage to third parties, and for pollution caused by the Company's operations; (2) automobile liability insurance for bodily injury or property damage to third parties as a result of the operation of all owned, leased or non-owned vehicles by the Company's employees during the performance of their duties; (3) casualty insurance for the replacement cost of all owned real and personal property, including any losses and additional expenses incurred as a result of equipment breakdowns, earthquake, fire, explosion, flood and any related business interruption; and (4) professional liability insurance for actions of the Company's directors or officers, or arising as a result of the Company's employment practices. In addition, the Company maintains excess liability policies that provide for limits in excess of those insured under the Company's underlying commercial and automobile liability policies.

All of the Company's policies are subject to terms, conditions, limits, exclusions and deductibles that are customary for the industry. The Company's assets and operations are also covered by insurance under certain global policies maintained by its indirect controlling shareholder.

xi) Legal, Administrative and Arbitration Proceedings

The Company may become involved in litigation and administrative proceedings relating to claims arising out of its operations and properties. These may include claims filed by suppliers and customers, federal, state or local governmental authorities, including tax authorities, neighboring residents and environmental and social activists, as well as labor disputes. Other than as described below, there are no material governmental, legal or arbitration proceedings against the Company which may have a material adverse effect on its business, financial position or results of operations:

Matters on ECA

a. *Motions for review (recurso de revision) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdez Castañeda (“Castro* and *Valdez”),* jointly, and Monica Fabiola Palafox (“Palafox”), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaria de Medio Ambiente y Recursos Naturales, SEMARNAT)* to challenge the issuance of the MIA to the ECA Terminal granted in April 2003, based on allegations similar to IVG’s allegations. SEMARNAT dismissed the motions and the plaintiffs filed motions for annulment against the respective rulings before the Federal Court of Tax and Administrative Justice *(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA),* in Mexico city. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdez*,* SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdez filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a motion against the ruling whereby the TFJFA ordered the admittance of the motion filed by *Valdez.* In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdez and Palafox are unfounded.

   Finally, against the resolution of dismissal Roberto Valdez filed an annulment proceeding that was resolved denying the annulment to the complainant by means of a judgment published in January 2017.

b. *Saloman Arya Furst* and *Abraham Hanono Raffoul* filed before the Unitary Agrarian District Court of *Ensenada* a claim against the Ministry of Agrarian Reform *(Secretaria de la Reforma Agraria),* ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA’s Terminal is located, as well as the return of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the ECA’s former owners were issued improperly and without considering the existing property rights of such immovable property. In September 2011 was held a definitive hearing on the subject, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before issuing the judgment, the plaintiffs filed a constitutional claim against the refusal of the judge to the admittance of the evidence. The action of the judge is suspended by the constitutional claim, and, the constitutional trial cannot continue until the Court serves notice of the civil claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

   After several adjourned hearings, on June 9, 2015 the parties were duly notified of these proceedings. On that same date, the hearing was held, during which the disputed issues were set and the evidence of all the parties was offered. Given the amount of evidentiary material, the Court reserved the right of study and assessment thereof to subsequently set a new date of hearing. It was held on September 2015 where there was no resolution, later it was programmed the relief of an expert test in the field for the November 3, 2016. This test was released and to the date was submitted to the Agrarian Court.

   On November 3, 2017, a diligence for inspection and study in the field was carried out by various experts offered by the litigants. To date all experts have surrendered their respective opinions. The Agrarian Court has ordered the issuance of an expert opinion of a third party in dispute and is requesting the Superior Agrarian Court, the appointment of an expert for this purpose

Matters on ESJ

In November 2011, Terra Peninsular, A.C., a Mexican environmental organization, filed an administrative lawsuit with the Mexican Federal Tax and Administrative Court (FTAC) in Mexico City challenging the Mexican Environmental Protection Ministry's issuance of an environmental authorization to Energía Sierra Juárez for the construction and operation of a wind electric generation project. Terra Peninsular alleged that it was not notified with the resolution granting to Energía Sierra Juarez the environmental authorization and, that the environmental authorization was not evaluated in compliance with applicable law, and further alleged that had the Mexican Environmental Protection Ministry done so, it would have denied the environmental authorization. The FTAC denied a provisional injunction sought by Terra Peninsular, but admitted Terra Peninsular´s complaint. The court denied the final injunction requested for Terra Peninsular as well. Energía Sierra Juárez and the Mexican Environmental Protection Ministry have filed their responses to Terra Peninsular complaint in June 2012, contending that the environmental authorization was validly issued and the only one who should have been notified of the resolution, since it is the holder of the authorization. For the importance of the matter, same was referred to the Higher Chamber of the FTAC, which in public session of the 21st of August 2017, -by unanimous votes of the Magistrates- resolved to dismiss the action, because TP filed the claim out of time, because it was filed almost a year after the issuance of the authorization, when the law provides a 15 days period to do so. The FTAC's decision was supported by several documents provided by ESJ to prove that fact. TP showed no interest in continuity of the trial, because on several occasions to be served with the sentence at the address indicated to receive notifications, the Court's actuary took note that the address was unoccupied and no person knew or had data of TP or his lawyers. The law establishes that if there is a change of address, the Party must inform the Court. And because there was no notification on the change in the address provided, the TFJFA considered the notification was fulfilled. The Court waited a period of 15 days for the filing of an appeal against the judgment. When no appeal was filed, the TFJPA declared that the judgment was final.

The operations of ECA's Terminal and ESJ's wind farm have not been affected as a result of the proceedings described above and they continue operating normally during the process thereof. However, if any of such proceedings was resolved unfavorably for the Company, the operations of ECA's Terminal and/or ESJ wind farm might be affected adversely and significantly, which in turn might have a significant adverse effect on the activities, perspectives, the financial position, the operation results and the cash flows of the Company.

Except for the affairs stated above, neither the Company nor its assets are subject to any other legal action different from those arisen in the normal course of business.

CAPITAL STOCK

xii) Shareholders' equity

Shareholders	Number of Shares	As of December 31, 2015, 2014 and 2013 (in Mexican pesos) Fixed Capital	Variable Capital	Total	Total equity (in thousands of U.S. Dollars)
Semco Holdco, S. de R. L. de C. V.	935,913,312	Ps. 50,000	Ps. 9,359,083,120	Ps. 9,359,133,120	$ 618,752
Public investors	218,110,500	–	2,181,105,008	2,181,105,008	144,197
	1,154,023,812	Ps. 50,000	Ps. 11,540,188,128	Ps. 11,540,238,128	$ 762,949

At a general partners' meeting held February 15, 2013, the then partners in the company approved a Ps.1.00 increase in equity for its payment by Sempra Energy Holdings XI, B.V., a subsidiary of Sempra Energy, toward an increase in its equity interest in the Company, as well as the Company's transformation from a limited partnership into a limited liability, variable stock corporation. See Note 1.2.1 to the Company's audited financial statements included elsewhere in this report. As a result of these actions, on February 15, 2013 all partnership interests in the Company were exchanged for shares of stock that were allocated as follows:

Shareholders	Shares Class I	Class II	Total
Sempra Energy Holdings XI, B.V.	4,990	935,908,312	935,913,302
Sempra Energy Holdings IX, B.V.	10	–	10
	5,000	935,908,312	935,913,312

The Company's capital is divided into shares of common stock issued in registered form, no par value, of which Class I shares represent the fixed portion of the Company's capital and Class II shares represent the variable portion of the Company's capital. The imputed value of the Company's shares is Ps.10.0 per share.

On March 6, 2013, Sempra Energy Holding XI B.V. subscribed a capital increase in Semco Holdco, S. de R.L. de C.V., or Semco, a subsidiary of the Company's indirect controlling shareholder, Sempra Energy, thereby increasing its equity interest in Semco. Sempra Energy Holding XI B.V. agreed to pay for such capital increase in kind in the form of a number of shares of the Company's stock to be determined based on the offering price per share in a global offering of the Company's shares and assuming the registration of the Company's shares with the Mexican Securities Registry. On the offering date, on which the registration of the Company's shares with the Mexican Securities Registry became effective, Sempra Energy Holding XI B.V. transferred to Semco all of the shares of the Company's stock then held by it, and Semco became the Company's direct controlling shareholder.

On March 21, 2013, the Company placed a Global Offering of shares. Through the Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Mexican pesos per share. The offering included an over-allotment option of up to 28,449,196 shares. The value of this Global Offering was USD$520,707 ($6.4484 billion Mexican pesos).

On March 27, 2013, the initial purchasers and the Mexican underwriters exercised in full their over-allotment options for an aggregate purchase price of USD$78,106 (Ps.967 million).

At an extraordinary shareholders' meeting held September 14, 2015, the Company's shareholders approved a Ps.3.3 billion increase in the Company's capital through the issuance of new shares for sale in connection with a global offering, including an offering to public investors in Mexico and an international offering to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act of 1933). As of December 31, 2015 such shares remain unsold and, accordingly, are not accounted for in the Company's consolidated financial statements.

On October 7, 2016, the Extraordinary General Shareholders Meeting authorized to increase IEnova capital stock in the amount of 43.8 billion Mexican pesos and the issuance of a maximum 380'000,000 million ordinary, registered Class II, single Series, shares with a value of $10.00 per share, which may be freely subscribed and which were offered and place in full in the Company's further public offering.

On October 13, 2016, IEnova fixed the primary public offering price of the 380'000,00 registered ordinary Class II shares of the common stock in $80.00 ps per share.

Semco Holdco, S. de R.L. de C.V., the company’s main shareholder, subscribed 83,125,000 shares in the October 2016 public offering, at the placement price.

The following chart shows the current composition of the capital stock:

Shareholders	Number of shares	As of December 31, 2016 (Mexican Ps) Fixed capital	Variable capital	Total	Total equity (in thousands of US Dollars)
Semco Holdco, S. de R. L. de C. V.	1,019,038,312	50,000	10,190,333,120	10,190,383,120	751,825
Public investors	514,985,500	-	5,149,855,000	5,149,855,000	211,447
	1,534,023,812	50,000	15,340,188,120	15,340,238,120	963,272

Semco Holdco, S. de R.L. de C.V., is controlled by Sempra Energy, an American controlling company domiciled in San Diego, California, which is dedicated to the energy industry and is listed in the New York Stock Exchange under ticker symbol “SRE”. It is not controlled or under the significant control of any entity according to the terms defined in the LMV.

DIVIDENDS AND DIVIDEND POLICY

xiii) Dividends

A vote by the majority of the Company's shareholders present at a shareholders' meeting determines the declaration, amount and payment of dividends. Although not required by law, such declarations typically follow a recommendation from the Company's board of directors. Under Mexican law, dividends may only be paid (1) from retained earnings included in financial statements that have been approved at a shareholders' meeting, (2) if losses for prior fiscal years have been recovered, and (3) if the Company has increased its legal reserve by at least 5.0% of its annual net profits until such reserve reaches 20.0% of the Company's capital stock.

Although the Company does not have a formal dividend policy and has no current plans to adopt such a policy, the Company currently intends to declare dividends on an annual basis, with one or more payments during the year. The payment of dividends, and any formal dividend policy that may be adopted in the future, will be subject to the requirements of Mexican law and will depend on a number of factors including the Company's results of operations, financial condition, cash requirements, future prospects, taxes, covenants and agreements the Company has entered into or may in the future enter into, its subsidiaries' ability to pay dividends to us, and other factors that the Company's board of directors and shareholders deem relevant. The Company cannot assure you it will pay any dividends in the future.

The Company's indirect controlling shareholder has the power to determine matters related to the payment of dividends. See "Risk Factors –Risks Relating to the Company's shares and Other Securities Issued by the Company – There can be no assurance that the Company will be able to pay or maintain cash dividends."

During the three-year period ended December 31, 2017, 2016 and 2015, the Company paid dividends on three occasions:

- On August 15, 2017, in the amount of USD$200.0 million;
- On August 9, 2016, in the amount of USD$140.0 million; and
- On August 6, 2015, in the amount of USD$170.0 million.

xiv) Foreign Exchange Restrictions and Other Limitations Affecting the Holders of the Company's Securities

To the best of the Company's knowledge, there are no foreign exchange restrictions or other limitations imposed by the laws of any country other than Mexico that may limit the ability of non-Mexican holders of the Company's Notes to exercise their rights under the Notes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

a) Selected Financial Information

The following tables present the Company's selected consolidated financial and other data as of and for the periods indicated. These tables should be read in conjunction with the financial statements and notes thereto included elsewhere in this report and are qualified in their entirety by the information contained therein. See "Presentation of Financial and Other Information."

The Company derived the consolidated statements of income data for the years ended December 31, 2017, 2016 and 2015 and the consolidated statements of financial position data as of December 31, 2017, 2016 and 2015 from its audited financial statements included elsewhere in this report. You should read this data together with the Company's audited financial statements and related notes included elsewhere in this report and the information under the captions "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Statements of Profit

(in thousands of U.S. Dollars)	**Year ended December 31,**		
	2017	**2016**	**2015**
Revenues	1,166,526	717,894	613,041
Cost of revenues	(303,462)	(237,789)	(257,226)
Operating, administrative and other expenses	(176,793)	(104,754)	(81,857)
Depreciation and amortization	(119,020)	(64,384)	(52,470)
Interest income	22,808	6,269	6,701
Finance (cost) income	(72,905)	(20,836)	(9,859)
Other (losses) gains, net	(41,590)	2,168	(11,426)
Remeasurement of equity method investment [1]	—	673,071	—
Profit before income taxes and share of profits of joint ventures	**475,564**	**971,639**	**206,904**
Income tax expense	(109,663)	(147,158)	(94,237)
Share of profits of joint ventures, net of income tax	44,677	42,841	42,319
Profit for the period from continuing operations	**410,578**	**867,322**	**154,986**
(Loss) gain for the period from discontinued operations, net of income tax [2]	(56,404)	(112,332)	(14,797)
Profit for the year	**354,174**	**754,990**	**140,189**

[1] In 2016, the non-cash gain of $673.1 million is related to the remeasurement to fair value of our previously held 50 percent interest in IEnova Pipelines, formerly Gasoductos de Chihuahua.

[2] The Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant; accordingly, its financial results are presented as discontinued operations. These results include non-cash, after-tax impairment charges of $63.8 million in 2017 and $95.8 million in 2016.

Consolidated Statements of Financial Position

(in thousands of U.S. Dollars)	As of December 31,		
	2017	**2016**	**2015**
Assets			
Current assets:			
Cash and cash equivalents	37,208	24,918	40,377
Short-term investments	1,081	80	20,068
Trade and other receivables, net	94,793	100,886	53,728
Assets held for sale	148,190	191,287	—
Other current assets(1)	233,741	127,769	111,156
Total current assets	**515,013**	**444,940**	**225,329**
Non-current assets:			
Due from unconsolidated affiliates	493,887	104,352	111,766
Finance lease receivables	942,184	950,311	14,510
Deferred income tax assets	97,334	89,688	78,965
Investments in joint ventures	523,102	125,355	440,105
Property, plant and equipment, net	3,729,456	3,614,085	2,595,840
Intangible assets	190,199	154,144	—
Goodwill	1,638,091	1,638,091	25,654
Other non-current assets(2)	34,593	5,982	14,913
Total non-current assets	**7,648,846**	**6,682,008**	**3,281,753**
Total assets	**8,163,859**	**7,126,948**	**3,507,082**
Liabilities and equity:			
Short-term debt	262,760	493,571	88,507
Due to unconsolidated affiliates	544,217	260,914	352,650
Liabilities held for sale	62,522	35,451	—
Other current liabilities(3)	184,418	181,738	102,184
Current liabilities	**1,053,917**	**971,674**	**543,341**
Non-current liabilities			
Long-term debt	1,732,040	1,039,804	299,925
Accounts payable to related parties	73,510	3,080	38,460
Deffered income tax liabilities	551,614	489,607	261,294
Other non-current liabilities(4)	236,191	272,472	184,198
Total non-current liabilities	**2,593,355**	**1,804,963**	**783,877**
Total liabilities	**3,647,272**	**2,776,637**	**1,327,218**
Stockholders' Equity			
Common stock	963,272	963,272	762,949
Additional paid-in capital	2,351,801	2,351,801	973,953
Accumulated other comprehensive loss	(114,556)	(126,658)	(103,944)
Retained earnings	1,316,070	1,161,896	546,906
Total equity attributable to owners of the company	**4,516,587**	**4,350,311**	**2,179,864**
Total stockholders' equity and liabilities	**8,163,859**	**7,126,948**	**3,507,082**

(1) Other current assets include restricted cash, amounts due from unconsolidated affiliates, other current assets, current finance lease receivable, current finance lease receivable, natural gas inventories and derivative financial instruments.

(2) Other non-current assets include intangible, other non-current assets and derivative financial instruments.

(3) Other current liabilities include trade and other payables, derivative financial instruments, other taxes payable, other current liabilities, other financial liabilities, income tax liabilities and provisions.

(4) Other non-current liabilities include derivative financial instruments, provisions and employee benefits.

Other Financial and Operating Data

(in thousands of U.S. Dollars)	Year ended December 31,		
	2017	**2016**	**2015**
Acquisitions for property, plant and equipment	224,816	315,810	300,090
EBITDA	**686,271**	**375,351**	**273,958**
Adjusted EBITDA	**758,639**	**504,021**	**391,814**
Adjusted EBITDA by business segment:			
Gas segment	669,676	485,454	367,224
Power segment	97,019	19,266	24,975
Corporate	(8,056)	(699)	(385)

The Company presents "EBITDA" and "Adjusted EBITDA" in this earnings report for the convenience of investors. EBITDA and Adjusted EBITDA, however, are not measures of financial performance under IFRS and should not be considered as alternatives to profit or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity.

The Company's definition of EBITDA is profit for the period after adding back or subtracting, as the case may be, (1) depreciation and amortization, (2) financing cost, net, (3) other (gains) losses, net, (4) remeasurement of equity method investment, (5) income tax expense, (6) share of profits of joint ventures, net of income tax, and (7) (Profit) loss for the period from discontinued operations, net of income tax.

The Company defines Adjusted EBITDA as EBITDA plus Joint Ventures (JV) EBITDA adjustment plus Discontinued Operations EBITDA adjustment.

The Company defines the JV EBITDA adjustment as its share of the profit from joint ventures, after adding back or subtracting, as the case may be, its share of: (1) depreciation and amortization, (2) financing cost, net, (3) other (gains) losses, net, and (4) income tax expense.

The Company defines the Discontinued operation EBITDA adjustment as the profit (loss) for the period from discontinued operations, net of income tax after adding back or subtracting, as the case may be, (1) impairment, (2) depreciation and amortization, (3) financing cost, net, (4) other (gains) losses, net, and (5) income tax expense (benefit).

	Year ended December 31,		
(in thousands of U.S. Dollars)	2017	2016	2015
Gas segment	617,481	373,881	274,343
Power segment	76,846	2,169	—
Corporate	(8,056)	(699)	(385)
EBITDA	**686,271**	**375,351**	**273,958**
JV EBITDA Adjustment	70,563	130,084	110,921
Discontinued Operations EBITDA Adjustment	1,805	(1,414)	6,935
Adjusted EBITDA	**758,639**	**504,021**	**391,814**

Selected Financial Quarterly Information

(thousands of USD$, except data per share)	Three months ended December 31, 2017	2016
Revenues	294,306	251,611
Profit before income tax and share of profits of joint ventures	69,995	124,919
Profit for the period	36,728	27,533
Earnings per share	0.02	0.03

In the fourth quarter of 2017, revenues were USD$294.3 million, compared with USD$251.6 million in the same period of 2016. The increase of USD$42.7 million was mainly due to higher natural gas sales volume and weighted average prices, the acquisition of Ventika, and the start of operations of new pipelines.

In the fourth quarter of 2017, profit before income tax and share of profits of joint ventures was USD$70.0 million, compared with USD$124.9 million in the same period of 2016. The decrease of USD$54.9 million was mainly due to exchange rate effects, higher corporate debt balance, and lower interest capitalization related to projects under construction. This decrease was partially offset by the results of the start of operations of the new pipelines and the Ventika acquisition, as well as the interest income related to the shareholder's loan granted to South Texas – Tuxpan pipeline.

In the fourth quarter of 2017, profit was USD$36.7 million, or USD$0.02 per share, up 33 percent from USD $27.5 million, or USD$0.03 per share, in the same period of 2016. The increase of USD$9.2 million, or USD$0.01 per share, was mainly due to lower income tax expense, higher share of profits of joint ventures, and higher operational results at the Termoeléctrica de Mexicali power plant. This increase was partially offset by exchange rate effects, and operating, administrative and other expenses from the start of operations of the Guaymas – El Oro, Ojinaga – El Encino, and San Isidro – Samalayuca pipelines.

b) Financial Information by Business Segment

Segment Information

Below is a presentation of the Company's financial information by business segment, which is derived from the Company's audited financial statements.

Products and Services from Which Reportable Segments Derive Their Revenues

The Company operates in the energy sector. The Company is organized into two operating segments, Gas and Power. The amounts identified as Corporate correspond to IEnova as a holding company.

- gas segment, which includes natural gas and LPG transportation through the Company's pipelines and storage, natural gas compression, ethane transportation in liquid and gas phases, LPG storage facility, LNG storage and regasification business, natural gas distribution business and refined products storage; and

- power segment, which includes the electricity generation at the natural gas-fired combined cycle Termoeléctrica de Mexicali power plant, wind power generation through Energía Sierra Juárez and Ventika and four photovoltaic solar power plants that are currently under development and construction.

In addition, certain revenue and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which are referred to as corporate. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

The Company is currently developing a project for the construction of a marine terminal and two in-land terminals for the receipt, storage and delivery of refined petroleum products. The terminals will be located in Veracruz, Puebla and Mexico City.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are presented in the Condensed Consolidated Statements of Profit as discontinued operations, net of income tax; likewise its assets and liabilities are presented as assets held for sale and liabilities held for sale in the Consolidated Statement of Financial Position.

Results of Operations by Business Segment

Segment Revenues

The following is an analysis of the Company's revenues and results from continuing operations by reportable segment.

(thousands of USD$)	Years ended December 31,		
	2017	**2016**	**2015**
Gas			
Revenues from customers	961,903	610,329	425,618
Revenues from unconsolidated affiliates	103,043	101,998	100,821
Intersegment sales	241,705	182,542	339,850
Power			
Revenues from customers	99,721	2,930	—
Corporate			
Allocation of professional services with unconsolidated affiliates	1,859	2,637	1,766
Intersegment professional services	29,970	29,484	35,527
Intersegment adjustments and eliminations	(271,675)	(212,026)	(290,541)
Total segment revenues	**1,166,526**	**717,894**	**613,041**

Segment Profit

(in thousands of U.S. Dollars)	Years ended December 31,		
	2017	**2016**	**2015**
Gas	470,137	919,219	185,313
Power*	(40,970)	(111,749)	(10,626)
Corporate	(74,993)	(52,480)	(34,498)
Total segment profit	**354,174**	**754,990**	**140,189**

* Includes Discontinued Operations

Assets and Liabilities by Segment

(in thousands of U.S. Dollars)	Years ended December 31,		
	2017	2016	2015
Assets by segment:			
Gas	6,385,681	5,716,175	2,916,917
Power *	1,170,970	1,241,689	382,763
Corporate	607,208	169,084	207,402
Consolidated total assets	**8,163,859**	**7,126,948**	**3,507,082**
Liabilities by segment:			
Gas	1,030,611	983,424	346,106
Power *	652,502	641,479	66,493
Corporate	1,964,159	1,151,734	914,619
Consolidated total liabilities	**3,647,272**	**2,776,637**	**1,327,218**

* Includes Discontinued Operations

Other Information by Segment

	Property, plant and equipment Years ended December 31,			Accumulated depreciation Years ended December 31,		
(in thousands of U.S. Dollars)	2017	2016	2015	2017	2016	2015
Gas	3,569,528	3,354,683	2,687,691	(510,744)	(424,639)	(370,690)
Power	686,195	677,440	450,665	(24,885)	(1,807)	(180,461)
Corporate	18,881	16,191	15,048	(9,519)	(7,783)	(6,413)
	4,274,604	**4,048,314**	**3,153,404**	**(545,148)**	**(434,229)**	**(557,564)**

	Depreciation and amortization Years ended December 31,			Additions to Property, plant and equipment Years ended December 31,		
(in thousands of U.S. Dollars)	2017	2016	2015	2017	2016	2015
Gas	86,182	60,703	50,909	205,452	692,853	308,138
Power	31,049	2,134	45	8,373	673,808	6,436
Corporate	1,789	1,547	1,516	3,237	1,376	1,072
	119,020	**64,384**	**52,470**	**217,062**	**1,368,037**	**315,646**

(in thousands of U.S. Dollars)	Interest income Years ended December 31,			Finance (cost) income Years ended December 31,		
	2017	2016	2015	2017	2016	2015
Gas	813	959	562	3,371	23,144	22,856
Power	963	1,151	1,451	(24,977)	(1,286)	219
Corporate	21,032	4,159	4,688	(51,299)	(42,694)	(32,934)
	22,808	**6,269**	**6,701**	**(72,905)**	**(20,836)**	**(9,859)**

(in thousands of U.S. Dollars)	Share of profits for joint ventures, net of income tax Years ended December 31,			Income tax (benefit) expense Years ended December 31,		
	2017	2016	2015	2017	2016	2015
Gas	41,094	40,284	41,485	(97,340)	(132,952)	(99,988)
Power	3,583	2,557	834	(9,472)	1,077	2,002
Corporate	—	—	—	(2,851)	(15,283)	3,749
	44,677	**42,841**	**42,319**	**(109,663)**	**(147,158)**	**(94,237)**

Revenue by Type of Product or Services

The following is an analysis of the Company’s revenue by type of product or services:

(in thousands of U.S. Dollars)	Years ended December 31,		
	2017	2016	2015
Transportation	429,273	171,459	95,520
Sale of natural gas	241,371	199,126	224,143
Other operating revenues	174,107	157,515	118,315
Natural gas distribution	112,217	89,722	81,411
Storage and regasification	109,837	97,168	93,652
Power generation	99,721	2,904	—
	1,166,526	**717,894**	**613,041**

Other operating revenues

IEnova Marketing received payments from SLNGIH and SLNGI related to the losses and obligations incurred in the amount of USD$103 million, USD$102 million and USD$101 million for the year ended December 31, 2017, 2016 and 2015, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

The Company has declared a *force majeure* event for the Guaymas - El Oro segment of the Sonora pipeline in the Yaqui territory, and, as a result, operations have been interrupted in that segment since August 23, 2017. The Company has not experienced a material economic impact. The segment Sasabe - Puerto Libertad - Guaymas continues operating.

c) Material Financing Arrangements

Revolving Loan Agreement with SMBC

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to USD$400.0 million with a syndicate group of four banks including Santander, Bank of Tokyo, The Bank of Nova Scotia and SMBC. The revolving credit has the following characteristics:

- U.S. Dollar-denominated.
- Twelve month term, with an option to extend up to five years.
- Financing to repay and cancel the previous loans contracted in 2014 with Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015 the Company entered into an amended agreement in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders. It agreed to increase the amount of the line of credit under the credit agreement to a maximum aggregate amount of USD$600 million from the previously authorized maximum of USD $400 million. See note 21 to the Company's audited financial statements included elsewhere in this report.

Withdrawal of credit line. In July, 2016, the Company withdrew USD$380 million of such credit line to be used for working capital and general corporate purposes. In December 2016 the Company withdrew USD$375 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On November 3, 2016, the Company entered into a second amendment agreement in connection with the revolving credit mentioned above, whereby it agreed to increase the amount of the credit line under the credit agreement to a maximum aggregate amount of USD$1,170 million. On December 30, 2016 USD$200 million of this revolving credit was paid. As of December 31 2017, the available unused credit portion is USD$1,033 million.

The Company's obligations under the loan agreement include, among others, the following: deliver to the lenders the Company's unaudited quarterly and audited annual financial statements; give notice to the lenders of any Material Event (as defined in the agreement) that could have a Material Adverse Effect (as defined in the agreement); comply with obligations under the Mexican Securities Market Law; maintain such assets as are necessary to conduct the Company's business; maintain insurance coverage on its material assets; take such actions as may be necessary for obligations under the agreement to rank at least *pari passu* with other unsecured debt; refrain from entering into any merger or consolidation, or into liquidation or dissolution; and refrain from transferring or authorizing the transfer of more than 10% of the Company's Total Assets (as defined in the agreement), with certain exceptions set forth in the agreement.

Public Offering of CEBURES

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013, which is the date of execution of the foreign currency swaps discussed below).

It issued a series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion (USD$306 million) and a series of 5-year floating-rate Notes in the principal amount of Ps.1.3 billion (USD$102 million) that accrue interest at the TIIE rate plus 30 basis points. The Company paid the 5-year series at maturity on February 8, 2018.

The Company used a portion of the proceeds from the sale of both series of Notes, or approximately USD $405 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and for general corporate purposes, including financing its working capital requirements and the development of new pipeline projects.

The Company's obligations under the Notes include, among others, the following: comply in all material respects with the Company's reporting and disclosure obligations under the Mexican Securities Market Law, and refrain from entering into any merger or consolidation except where (i) the entity resulting from such merger or consolidation expressly agrees to assume the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an Acceleration Event (as defined in the certificates representing the Notes).

On February 15, 2013, the Company entered into certain swap agreements to hedge its exposure to interest rate changes and to the Company's Mexican peso-denominated obligations under the Notes. These included the following:

(a) A swap agreement pursuant to which the Company replaced the fixed, Mexican peso-denominated interest rate on the Company's 10-year Notes due in 2023 with a fixed, U.S. Dollar-denominated rate. The weighted average rate in U.S. Dollars through this swap was 4.12%.

(b) A swap agreement pursuant to which the Company replaced the floating, Mexican-peso denominated interest rate on the five-year Notes due in 2018 with a fixed, U.S. Dollar-denominated rate. The weighted average rate in U.S. Dollars through this swap was 2.65%.

The aggregate notional value of these swap agreements is USD$408.3 million (Ps.5.2 billion).

These agreements have been designated as cash flow hedges.

On February 8, 2018, the Company paid Ps. 1.3 billion related to the second series, or 5-year CEBURES.

Senior Notes international private placement

On December 2017, the Company completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048.

The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds of approximately USD$807 million from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

The Senior Notes were offered and sold in a private placement to qualified institutional buyers in the United States pursuant to Rule 144A and outside the United States pursuant to Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"). The Company did not register the Senior Notes in Mexico or United States. The Senior Notes were registered in the Singapore Exchange Securities Trading Limited.

IEnova Pipelines, formerly Gasoductos de Chihuahua, Long Term Credit Agreements

On December 5, 2013, GdC entered into a USD$490 million credit agreement with BBVA Bancomer, Bank of Tokyo, Mizuho and Nord LB, for the purpose of financing the Los Ramones I gas pipeline project. The financing was contracted for a term of 13.5 years, with quarterly capital amortizations, yielding an interest equivalent to a Libor rate of 90 days plus 200 to 275 basis points. This financing is guaranteed with collection rights for certain GdC projects. The cash provisions of this loan began in 2014.

As of December 31, 2017, the outstanding debt amounts to approximately USD$330 million, with the following breakdown of creditor banks:

		31/12/2017
BBVA Bancomer	$	165,172
Bank of Tokyo		66,069
Mizuho		25,157
Norinchukin		24,394
NordLB		49,552
	$	330,344

On January 22, 2014, GdC contracted financial instruments to hedge interest rate risk on total credit, exchanging LIBOR rate for a fixed rate of 2.63%.

As part of the obligations deriving from the credit, the following clauses must be complied with during the life of the loan:

Maintain a minimum stockholders' equity during the term of the loan, in the amounts indicated below:

GdC	USD$ 450 million
GDT	USD$ 130 million
TDF	USD$ 90 million

Maintain interest coverage ratio of at least 2.5 to 1 on a consolidated basis (EBITDA on interest), for the payment of interest.

As of the date of this Report, the Company has complied with these obligations.

Project financing for the Ventika project

On April 8, 2014, Ventika and Ventika II entered into a project finance loans for the construction of the wind projects with five banks: Santander as administrative and collateral agent, the NADB, and BANOBRAS, BANCOMEXT and NAFIN as lenders.

The credit facilities mature according to the following table, with payments due on a quarterly basis (each March 15, June 15, September 15 and December 15 until the final maturity date), starting on December 15, 2016. The credit facilities bear interest as follow:

Bank	Maturity date	Applicable Interest rate
Santander	15/03/2024	LIBOR + applicable margin
BANOBRAS	15/03/2032	LIBOR + applicable margin
NADB	15/03/2032	Fixed rate + applicable margin
BANCOMEXT	15/03/2032	Fixed rate + applicable margin
NAFIN	15/03/2032	Fixed rate + applicable margin

As of December 31 2017, the outstanding debt is USD$465 million with the following breakdown:

Creditor		31/12/2017
Santander		105,271
BANOBRAS		87,405
NADB		135,963
BANCOMEXT		67,982
NAFIN		67,982
	$	**464,603**

Interest Rate Swaps. In order to mitigate the impact of interest rate changes, Ventika and Ventika II entered into four interest rate swaps with Santander and BANOBRAS that allow Ventika and Ventika II to have almost 92% of the above-mentioned credit facilities fixed. The swap contracts allow the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent respectively, and to receive variable interest rate (3 month LIBOR).

Loan Agreements with unconsolidated affiliates

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrued interest at the rate of Libor plus 63 basis points *per annum*, payable on a quarterly basis.

On December 22, 2015, the Company entered into a 12-month, USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan accrues interest at equal to LIBOR plus 0.17%, payable on a quarterly basis. On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the follow-on equity offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD $800.0 million with Sempra Global, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 basis points. In October 2016, the company paid the principal and accrued interests with the net resources from the follow-on equity offering.

On September 26, 2016, IEnova entered into a USD$350 million unconsolidated affiliate loan with Semco Holdco, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

On December 27, 2016, IEnova entered into two related party revolving credit facilities for USD$20.0 million with Peruvian Opportunity Company S. A. C. and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated and have a twelve-month term with an option to extend up to four years in order to finance working capital needs and general corporate purposes. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 15, 2018. Under its corresponding agreement, each loan accrued interest at Libor plus 63 basis points that is payable on a quarterly basis.

On March 17, 2017, the Company entered into an amendment to the SOT Suisse loan agreement, pursuant to which the maturity date was extended for seven years. The applicable interest rate is Libor plus 180 basis points and interest is payable on a quarterly basis. As of December 31, 2017, the outstanding balance is USD$38.5 million.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points and interest is payable on a quarterly basis.

On April 27, 2017, the Company entered into a loan agreement with POC for the amount of USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points and interest is payable on a quarterly basis.

As of June 1, 2017 ISLA merged with ISL, which is the entity that remains after the merger, the conditions of the agreements between ISL and IEnova remain the same.

On June 26, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points and interest is payable on a quarterly basis.

On August 23, 2017, the Company entered into a loan agreement with SEH for the amount of USD$132.8 million in order to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate is Libor plus 61 basis points and interest is payable on a quarterly basis.

On September 29, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points and interest is payable on a quarterly basis.

On December 28, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 63 basis points and interest is payable on a quarterly basis.

As of December 31, 2017, 2016 and 2015, and as of the date of this report, the Company was in compliance with its payment obligations under each of the loans described above.

See “Liquidity and Capital Resources – Outstanding Indebtedness.”

d) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the information below together with the Company's audited financial statements as of and for the years ended December 31, 2017, 2016 and 2015, as well as the other financial information included elsewhere in this report. The Company's audited financial statements were prepared in accordance with IFRS as issued by the IASB.

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may vary materially from those discussed in such forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this report.

The Company's business Segments

The Company's assets are divided between two business segments:

- Gas segment, which includes natural gas and LPG transportation through the Company's pipelines and storage, natural gas compression, ethane transportation in liquid and gas phases, LPG storage, LNG storage and regasification, natural gas distribution and refined products storage; and

- Power segment, which includes the electricity generation at the natural gas-fired combined cycle Termoeléctrica de Mexicali power plant, wind power generation through Energía Sierra Juárez and Ventika and four photovoltaic solar power plants that are currently under development and construction.

In addition, certain revenues and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which are referred to as corporate. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

The Company is currently developing a project for the construction of a marine terminal and two in-land terminals for the receipt, storage and delivery of refined petroleum products. The terminals will be located in Veracruz, Puebla and Mexico City.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are presented in the Condensed Consolidated Statements of Profit as discontinued operations, net of income tax; likewise its assets and liabilities are presented as assets held for sale and liabilities held for sale in the Consolidated Statement of Financial Position.

Mexican Economic Environment

Substantially all of the Company's operations are located in Mexico. As a result, the Company's business, financial condition and results of operations depend on and may be affected by the general condition of the Mexican economy, over which the Company has no control.

In 2017, 2016 and 2015, Mexico's GDP grew by 2.0%, 2.3% and 2.6%, respectively.

Acquisition of IEnova Pipelines, formerly Gasoductos de Chihuahua

On September 27, 2016, the Company acquired the remaining 50% equity interest in IEnova Pipelines, formerly Gasoductos de Chihuahua from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million. This acquisition was approved by the Extraordinary Shareholders' Assembly of September 14, 2015. As a result of the GdC Acquisition, the Company increased its indirect equity interest in Gasoductos de Chihuahua from 50% to 100%. The GdC Acquisition excluded Gasoductos de Chihuahua's subsidiary Ductos y Energéticos del Norte, which participates in the ownership of the Los Ramones Norte pipeline through the TAG Pipelines Norte joint venture and as a result the Company held a 50% equity interest in Ductos y Energéticos del Norte (DEN) until November 2017. The Company entered into a bridge loan of USD$1.15 billion with Sempra Global and / or other unconsolidated affiliates to finance the acquisition of GdC. The Company used the net proceeds from the gloal equity follow-on to prepay the bridge loan and for other general corporate purposes.

Ventika Acquisition

In December 2016, the Company acquired 100% of equity interests of Ventika. Located in the State of Nuevo León, approximately 56 kms from the United States of America border, the facility has 84 turbines and generates up to 252 MW of installed capacity. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The transaction value was USD$920 million, including USD$434.7 million in cash and the existing bank debt of USD$485 million. Ventika started commercial operations on April 2016. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreement.

Ductos y Energéticos del Norte Acquisition

In November 2017, the Company completed the acquisition of the remaining 50% of the capital stock of Ductos y Energéticos del Norte owned by Pemex TRI. The transaction value is USD$547 million, comprised of (i) the price paid for the assignment of DEN's capital stock and the liquidation of certain shareholder loans of USD$258 million, and (ii) the proportional amount of Los Ramones Norte pipeline project financing of USD$289 million. This debt will not be consolidated on the Company's financial statements. As a result of the acquisition, the Company increased its indirect participation in Los Ramones Norte pipeline from 25% to 50%.

Factors Affecting the Company's results of Operations

The following are certain key factors that affect, or have recently affected, the Company's results of operations. These should be read in conjunction with the risks and uncertainties discussed under "Risk Factors."

Revenues

Revenue generated by each of the Company's businesses is affected by the following factors:

- The Company's businesses are subject to regulation and permitting requirements of federal, state and local governmental entities in Mexico. Although certain rates the Company charges customers for certain services are not regulated, many prices, fees and rates the Company charges customers in gas and power segments require approval from the Mexican Energy Regulatory Commission. Accordingly, the Company cannot unilaterally modify these prices, fees and rates, which restricts the Company's operational flexibility. The Mexican Energy Regulatory Commission adjusts regulated rates periodically in accordance with applicable regulations, and the Company has no control over these adjustments. Although the established prices, fees and rates are generally based on costs, the Company's profit could decrease if it is unable to raise prices or rates to keep up with costs.

- The Company depends on a limited number of customers with whom the Company has entered into long-term agreements. These agreements are, in general, subject to:

  - Early termination provisions for the failure of a party to perform its obligations under the agreement or in the event of insolvency of any of the parties;

  - Suspension or termination provisions for *force majeure* events beyond the control of the parties; and

  - Substantial limitations of remedies for other failures to perform by any of the parties, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach of the agreements.

  - If the Company is unable to collect payments from customers under these agreements for any of these reasons or otherwise, the Company's revenue could decrease.

- The Company's LNG terminal's primary revenue stream is generated through long-term firm storage services agreements with its third-party customers, Shell and Gazprom, as well as with the subsidiary IEnova Marketing, which purchases LNG for storage and regasification at the Company's LNG terminal. Each of the customers must pay for its full contracted LNG storage capacity, natural gas send-out capacity and nitrogen facility capacity regardless of whether it actually delivers LNG to the terminal. IEnova Marketing generates revenues by purchasing LNG for storage and regasification in the Company's LNG terminal and selling natural gas that is consumed by the

Mexican Federal Electricity Commission at its Presidente Juárez power plant, by the Company's Termoeléctrica de Mexicali power plant and by other consumers pursuant to natural gas supply contracts covering 100% of its LNG terminal natural gas send-out capacity. IEnova Marketing also generates revenues from payments it receives to the extent its LNG supplier, the Company's U.S. affiliate Sempra Natural Gas, does not deliver LNG to IEnova Marketing pursuant to a long-term LNG supply contract. Relatively high prices for LNG in Asian markets, together with low natural gas prices in Mexico and the United States, have reduced the number of expected shipments of LNG cargoes to IEnova Marketing by Sempra Natural Gas. Accordingly, the Company also depends on revenue derived from these payments. Under a long-term supply contract with Sempra Natural Gas, the payments made by Sempra Natural Gas to IEnova Marketing have been sufficient to compensate IEnova Marketing for the storage and transportation costs incurred by IEnova Marketing resulting from Sempra Natural Gas' failure to deliver required LNG cargoes. See "Related Party Transactions and Conflicts of Interest".

- The price of natural gas is subject to market conditions beyond the Company's control. The Mexican Energy Regulatory Commission requires natural gas distributors to pass the cost of natural gas through to their customers without obtaining a margin from the sale of natural gas. As a result, the cost of natural gas effectively offsets the amount of revenue from natural gas sales. However, the profit margin obtained by natural gas distributors, including the natural gas business, is derived from natural gas distribution fees and other related services. Accordingly, total revenue for the natural gas distribution business is impacted by market swings in natural gas prices and the Company's customers' preference for natural gas relative to other energy sources, such as LPG, and the profit derived from distribution fees and other related services can decrease in response to decreases in overall demand for natural gas.

- Customer demand in gas and power segments is also impacted by seasonality in the United States market, and with respect to natural gas distribution, general economic conditions in Mexico. See "– Mexican Economic Environment." Lower customer demand due to seasonality or unfavorable economic conditions could lower the Company's revenue and profits.

- The markets and pipelines to which the Company delivers natural gas and LPG typically establish minimum quality specifications for the delivered natural gas and LPG. These specifications can vary by pipeline or markets. If the quality of natural gas or LPG that the Company delivers fails to meet the applicable product quality specifications, the pipeline or market may refuse to accept all or a part of the delivery or may invoice the Company for the costs to handle the non-conforming products. In those circumstances, the Company may be required to find alternative markets for the delivery or stop accepting non-conforming product into the Company's pipelines, which could reduce the Company's through-put volumes or revenue.

- The Company may use financial derivative instruments in the ordinary course of the Company's business. The Company uses these instruments for hedging purposes. However, they are not reflected as hedges in the Company's financial statements because they do not qualify for hedge accounting due to certain technical requirements. The Company does not hedge the entire exposure to market price volatility of its assets or contract positions, and the hedging will vary over time. Unanticipated changes in market prices for energy-related commodities can result from multiple factors, including weather conditions, seasonality, changes in supply and demand, transmission or transportation constraints or inefficiencies, availability of competitively priced alternative energy sources and commodity production levels. If the Company does not hedge its exposure to market price volatility or the Company's contract positions correctly, the Company could incur losses.

- The ECOGAS natural gas distribution business benefited from a 12-year period of exclusivity with respect to each of its three distribution zones. The last of these exclusivity periods expired in 2011. Accordingly, the Company could face competition from other distributors of natural gas in all of the distribution zones.

Cost of Natural Gas

The cost of natural gas primarily consists of the cost of natural gas, costs of services, minor materials used in the power generation process, labor costs and transportation costs. The principal factors that affect these costs include the following:

- The Company's results are affected by energy prices, including market prices for natural gas, LNG, electricity, LPG and petroleum. If the Company's customers or suppliers fail to fulfill their obligations under their contracts with it, the Company may be required to enter into alternative arrangements to honor underlying commitments by making purchases from other suppliers at then-current market prices.

- The Company's LNG business is also impacted by worldwide LNG market prices. High LNG prices in markets outside the market in which the Company's LNG terminal operates have resulted and could continue to result in lower than expected deliveries of LNG cargoes to the Company's LNG terminal, which could increase the Company's costs if it does not receive expected LNG cargo deliveries from third parties under existing supply agreements and are instead required to obtain LNG in the open market at prevailing prices. Any inability to obtain expected LNG cargoes could also impact the Company's ability to maintain the minimum level of LNG required to keep the Company's LNG terminal in operation. LNG market prices also affect the Company's LNG marketing operations, through which the Company must purchase natural gas in the international market to meet its contractual obligations to deliver natural gas to the Company's customers, which could have an effect on its profit.

- Currently, the ECOGAS natural gas distribution business relies on two affiliate companies, IEnova Marketing and SoCalGas, for the supply of natural gas that the Company distributes to its customers. If any of these key suppliers fails to perform and the Company is unable to obtain supplies of natural gas from alternate sources, the Company could lose customers and sales volume, and in some cases, it could be exposed to commodity price risk and volatility.

Effects of Currency Exchange Rates on Income Tax Expense

Exchange rate fluctuations and Mexican inflation can result in significant fluctuations in the Company's income tax expense. The Company has U.S. Dollar-denominated receivables and payables that are subject to Mexican currency exchange rate movements for Mexican income tax purposes. The Company also has deferred income tax assets and liabilities that are denominated in Mexican pesos, which are translated to U.S. Dollars for financial reporting purposes. In addition, the Company adjusts its monetary assets and liabilities for Mexican inflation for purposes of determining the Mexican income tax expense. See Note 24.7 to the Company's audited financial statements, included elsewhere in this report.

Under IFRS, the Company is required to remeasure property, plant and equipment at each reporting period using the period-end Mexican peso exchange rate and change in inflation rate for the Company's U.S. Dollar functional currency subsidiaries. The impact from this period-end conversion for property, plant and equipment can result in significant fluctuations in the Company's income tax expense and deferred income tax balances. See Note 25.1 to the Company's audited financial statements, included elsewhere in this report.

Mexican Income Tax Reforms

The main effects of the tax reform for 2016 are as follows:

i. Capital investments made during the fourth quarter of 2015, and in 2016 and 2017, by companies engaged in the construction and expansion of transportation infrastructure (e.g., highways, roads and bridges) and in the generation, transportation, distribution and supply of electricity, would be subject to immediate depreciation.

ii. Subject to the satisfaction of the requirements applicable to tax deductions generally, companies engaged in the generation of electricity would not be subject to thin capitalization rules and would be able to deduct all interest payments to related parties located outside of Mexico, even where their debt-to-stockholders' equity ratio exceeded the maximum rate otherwise permitted by the Mexican Income Tax Law.

iii. Public companies whose shares of stock are listed for trading in an authorized market and who reinvest their profits for the period from 2014 to 2016 would be allowed a credit against the 10% withholding tax otherwise payable in connection with any dividends paid to individual shareholders. The amount of such credit would depend on the year in which such dividends were paid (i.e., 1% in 2017, 2% in 2018, and 5% in 2019 and thereafter).

iv. Companies engaged in the generation of electricity from renewable sources or through efficient cogeneration systems would be allowed to establish a new, adjusted pre-tax earnings account. As a result, these companies, which under the current regime are entitled to depreciate 100% of their investments in machinery and equipment, and accordingly, do not often accrue pre-taxed earnings for distribution as dividends, would be able to distribute their profits in the form of dividends not otherwise taxed at the company level.

Market Risks Associated with the Merchant Power Plant

The results related to the Termoeléctrica de Mexicali power plant are affected by market conditions, as it is currently operating on a merchant basis. Termoeléctrica de Mexicali currently sells its power based on market conditions at the time of sale, so the Company cannot predict with certainty:

- The amount or timing of revenue it may receive from power sales;
- The differential between the cost of operations and power sales revenue;
- The effect of competition from other suppliers of power;
- Regulatory actions or changes that may affect market behavior;
- The demand for power in markets served by Termoeléctrica de Mexicali relative to available supply; or
- The availability of transmission to accommodate the sale of power.

Several of the wholesale markets supplied by merchant power plants have experienced significant price declines due to excess supply. Termoeléctrica de Mexicali's results could be adversely affected if it is unable to sufficiently sell its output at prices that would require the Company to write off any of the capital already invested in the project as a result of significant changes to market or regulatory conditions, among other factors. The Company manages risks at Termoeléctrica de Mexicali by optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions, as well as avoiding short positions. However, the Company cannot provide assurance regarding the implementation of these risk management measures or how successful such implementation may be, and entering into long-term contracts in oversupplied markets could be difficult.

i) Results of Operations for the Years Ended December 31, 2017, 2016 and 2015

The following table sets forth the Company's profit for the years ended December 31, 2017, 2016 and 2015, and the change from the prior period. Segment profit is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change		Change	
	2017	2016	2015	2017 vs 2016		2016 vs 2015	
Revenues	1,166,526	717,894	613,041	448,632	62.5 %	104,853	17.1 %
Cost of revenues	(303,462)	(237,789)	(257,226)	(65,673)	27.6 %	19,437	(7.6)%
Operating, administrative and other expenses	(176,793)	(104,754)	(81,857)	(72,039)	68.8 %	(22,897)	28.0 %
Depreciation and amortization	(119,020)	(64,384)	(52,470)	(54,636)	84.9 %	(11,914)	22.7 %
Interest income	22,808	6,269	6,701	16,539	263.8 %	-432	(6.4)%
Finance (costs) income	(72,905)	(20,836)	(9,859)	(52,069)	249.9 %	(10,977)	111.3 %
Other gains and (losses), net	(41,590)	2,168	(11,426)	(43,758)	n.s.	13,594	(119.0)%
Remeasurement of equity method investment	—	673,071	—	(673,071)		673,071	
Profit before income taxes and share of profits of joint ventures	475,564	971,639	206,904	(496,075)	(51.1)%	764,735	369.6 %
Income tax expense	(109,663)	(147,158)	(94,237)	37,495	(25.5)%	(52,921)	56.2 %
Share of profits of joint ventures, net of income taxes	44,677	42,841	42,319	1,836	4.3 %	522	1.2 %
Profit for the period from continuing operations	410,578	867,322	154,986	(456,744)	(52.7)%	712,336	459.6 %
(Loss) gain for the period from discontinued operations, net of income tax	(56,404)	(112,332)	(14,797)	55,928	(49.8)%	(97,535)	659.2 %
Profit for the year	354,174	754,990	140,189	(400,816)	(53.1)%	614,801	438.6 %

Profit for the year

The following table sets forth the Company's profit by reportable segment for the years ended December 31, 2017, 2016 and 2015, and the change from the prior period. Segment profit is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Profit for the year							
Gas segment	470,137	919,219	185,313	(449,082)	(48.9)%	733,906	396.0%
Power segment	(40,970)	(111,749)	(10,626)	70,779	(63.3)%	(101,123)	951.7%
Corporate	(74,993)	(52,480)	(34,498)	(22,513)	42.9 %	(17,982)	52.1%
Total profit for the year	354,174	754,990	140,189	(400,816)	(53.1)%	614,801	438.6%

Gas Segment

In 2017, gas segment profit decreased USD$449.1 million, or 49%, compared to 2016, mainly due to the non-cash gain of $673.1 million related to the remeasurement to fair value of the previously held 50 percent interest in Gasoductos de Chihuahua in 2016. This effect was partially offset by USD$121.4 million for IEnova Pipelines acquisition, formerly Gasoductos de Chihuahua, lower income tax expense by USD$66.0 million and USD$40.3 million from the start of operations of four pipelines.

In 2016, gas segment profit increased by USD$733.9 million, or 396%, compared to 2015, primarily due to a one-time noncash of USD$673.1 million of remeasurement of equity method investment of the Company's previously held 50% share on Gasoductos de Chihuahua.

Power Segment

In 2017, power segment loss decreased by USD$70.8 million compared to 2016, due to Ventika wind generation farm operations, partially offset by the Termoeléctrica de Mexicali non-cash, after-tax impairment charge of USD$63.8 million in 2017.

In 2016, power segment loss increased by USD$101.1 million compared to 2015, primarily due to the noncash adjustment of carrying value of Termoeléctrica de Mexicali power plant by USD$136.9 million.

Corporate

In 2017, corporate loss increased by USD$22.5 million compared to 2016, mainly due to the effect of exchange rate, primarily related to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline (which is partially offset in the share of profits of joint ventures), and higher interest expense partially offset by interest income related to the shareholder's loan to fund the South Texas – Tuxpan pipeline and lower income tax expense.

In 2016, corporate loss increased by USD$18.0 million compared to 2015, primarily due to higher income tax expense as a result of higher profit before tax and the effect of exchange rate and inflation on monetary assets and liabilities at period end.

Revenues

The following table sets forth the Company's revenues by reportable segment for the years ended December 31, 2017, 2016 and 2015, and the change from the prior period. Segment revenues are presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Revenues							
Gas segment	1,064,946	712,327	611,275	352,619	49.5 %	101,052	16.5%
Power segment	99,721	2,930	—	96,791	n.s	2,930	n.s
Corporate	1,859	2,637	1,766	(778)	(29.5)%	871	49.3%
Total revenues	1,166,526	717,894	613,041	448,632	62.5 %	104,853	17.1%

Gas Segment

In 2017, gas segment revenues increased by USD$352.7 million —equivalent to 49.5%— compared to 2016, mainly due to USD$220.8 million from the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua and USD$66.2 million from the start of operations of the pipelines Sonora, Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme Lateral, USD$61.3 million of higher weighted average cost of natural gas and higher volume sold and USD$4.9 million due to higher natural gas distribution rates at ECOGAS.

In 2016, gas segment revenues increased by USD$101.1 million, equivalent to 16.5% compared to 2015, primarily due to USD$79.4 million related to the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua, and USD$32.1 million of income related to Sonora pipeline Guaymas – El Oro segment, partially offset by USD$7.9 million of lower weighted average price of natural gas.

Power Segment

In 2017, power segment revenues of USD$99.7 million increased by USD$96.8 million compared to 2016 as a result of the acquisition of the Ventika wind power generation facility in December 2016.

In 2016, power segment revenues of USD$2.9 million relate to 17 days of operations of the Ventika wind power generation facilities.

In February 2016, the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are included in the Company's consolidated statements of profit under "Discontinued operations."

Corporate

In 2017, corporate revenues decreased by USD$0.8 million –equivalent to 30%– compared to 2016, mainly due to project development expenses billing in 2016.

In 2016, corporate revenues increased USD$0.9 million –equivalent to 49%– compared to 2015, mainly due to project development expenses billing.

Cost of revenues

The following table sets forth the Company's cost of revenues by reportable segment for the years ended December 31, 2017, 2016 and 2015, and the change from the prior period. Cost of revenues is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	**Year ended December 31,**			**Change**			
	2017	**2016**	**2015**	**2017 vs. 2016**		**2016 vs. 2015**	
Cost of revenues							
Gas segment	296,933	237,621	257,226	59,312	25.0%	(19,605)	(7.6)%
Power segment	6,529	168	—	6,361	n.s	168	n.s
Total cost of revenues	303,462	237,789	257,226	65,673	27.6%	(19,437)	(7.6)%

Gas Segment

In 2017, gas segment cost of revenues increased by USD$59.3 million —equivalent to 25%— compared to 2016, primarily due to higher weighted average cost of natural gas and higher volume sold.

In 2016, gas segment cost of revenues decreased by USD$19.6 million —equivalent to (7.6%)— compared to 2015, primarily due to lower weighted average cost of natural gas.

Power Segment

In 2017, power segment cost of revenues increased by USD$6.4 million related to the operations of the Ventika wind power generation facilities.

In 2016, power segment cost of revenues of USD$0.2 million relate to 17 days of operations of the Ventika wind power generation facilities.

In February 2016, the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are included in the consolidated statements of profit under "Discontinued operations."

Operating, administrative and other expenses

In 2017, operating, administrative and other expenses were USD$176.8 million compared to USD$104.8 million in 2016. The increase was mainly due to the acquisition of the Ventika wind power generation facility and the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua, and the start of operations of four pipelines: Sonora, Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme Lateral, and other corporate expenses.

In 2016, operating, administrative and other expenses were USD$104.8 million compared to USD$81.9 million in 2015. The increase was mainly due to the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua.

Depreciation and amortization

In 2017, depreciation and amortization was USD$119.0 million, compared with USD$64.4 million for 2016. The increase of USD$54.6 million was mainly due to the acquisitions of Ventika and the remaining 50 percent of Gasoductos de Chihuahua, and the start of operations of four pipelines: Sonora Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme lateral.

In 2016, depreciation and amortization expenses were USD$64.4 million, compared to USD$52.5 million. The variance of USD$11.9 million was mainly due to the acquisition of the remaining 50% of Gasoductos de Chihuahua and Ventika.

Finance (costs) income

In 2017, financing cost, net was USD$50.1 million, compared with USD$14.6 million for 2016. The increase of USD$35.5 million was mainly due to higher interest expense from debt related to Ventika, a higher corporate debt balance, interest expense related to Gasoductos de Chihuahua, and lower interest capitalization related to projects under construction, partially offset by interest income related to the shareholder's loan granted to South Texas – Tuxpan pipeline (our joint venture with TransCanada).

In 2016, net financing costs was USD$14.6 million compared to USD$3.2 million in 2015. The variance of USD$11.4 million is mainly due to increased interest expense related to the acquisition of the remaining 50% of Gasoductos de Chihuahua and the acquisition of Ventika.

Other (losses) gains

In 2017, other losses were USD$41.6 million, compared with other gains of USD$2.2 million in 2016. The decrease of USD$43.8 million was related to exchange rate effects, mainly due to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline (our joint venture with TransCanada), which is partially offset in Share of Profits of Joint Ventures.

In 2016, other gains, net, were USD$2.2 million, compared with other losses, net, of USD$11.4 million in 2015. The variation of USD$13.6 million is mainly due to foreign exchange impacts and mark-to-market losses on an interest rate swap in 2015. This derivative instrument was terminated in September 2015.

Income taxes

In 2017, income tax expense was USD$109.7 million compared with USD$147.2 million in 2016. The decrease of USD$37.5 million is primarily due to the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant, and equipment at our U.S. dollar company functional currency, which we are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate and inflation. This decrease is partially offset by the currency exchange rate and inflation movements at period end on monetary assets and liabilities.

In 2016, income tax expense was USD$147.2 million compared with USD$94.2 million in 2015. The variance of USD$53.0 million is primarily due to higher earnings before taxes and the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant, and equipment at the Company's U.S. dollar functional currency, which the Company is required to remeasure in each reporting period based on changes in the Mexican peso exchange rate, and the effect of inflation on monetary assets and liabilities, partially offset by currency exchange rate movements at period end on monetary assets and liabilities.

Share of profits of joint ventures, net of income taxes

In 2017, the Company's share of profits of joint ventures, net of income tax, was USD$44.7 million, compared with USD$42.8 million in 2016. The increase of USD$1.9 million is mainly due to profit in the South Texas – Tuxpan pipeline (our joint venture with TransCanada), from foreign exchange rate effects related to a peso-denominated shareholder's loan, the start of operations of Los Ramones Norte pipeline in February 2016, and lower income tax expense. This increase is partially offset by the impact of the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and higher income tax in the South Texas – Tuxpan pipeline. These foreign exchange rate effects are offset in Other (Losses) Gains, net.

In 2016, the Company's share of profits of joint ventures, net of income tax, which the Company accounts for using the equity method, was USD$42.8 million in comparison to USD$42.3 million in 2015. The increase of USD $0.5 million is due to the start of operations of the Los Ramones Norte pipeline, partially offset by the acquisition of the remaining 50% of Gasoductos de Chihuahua.

Profit (Loss) for the period from discontinued operations, net of income tax

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2017, 2016 and 2015 are presented in the Condensed Consolidated Statements of Profit as discontinued operations, net of income tax.

In September 2016, the Company determined that the carrying value of Termoeléctrica de Mexicali power plant needed to be adjusted. This resulted in a non-cash, after-tax impairment charge of USD$68.7 million in the third quarter of 2016.

In June 2017, the asset value indicated by the Termoeléctrica de Mexicali power plant sale process was determined to be lower than its carrying value. This resulted in a non-cash, after-tax impairment charge of USD$63.8 million in the second quarter of 2017.

In 2017, loss from discontinued operations, net of income tax, was USD$56.4 million, compared with USD $112.3 million in 2016. The decrease in losses of USD$55.9 million is mainly due to a lower impairment charge in 2017, an income tax benefit and higher operational results.

Adjusted EBITDA

The following table sets forth the Company's Adjusted EBITDA by reportable segment for the years ended December 31, 2017, 2016 and 2015, and the change from the prior period. Segment Adjusted EBITDA is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Adjusted EBITDA							
Gas segment	669,676	485,454	367,224	184,222	37.9%	118,230	32.2 %
Power segment	97,019	19,266	24,975	77,753	403.6%	(5,709)	(22.9)%
Corporate	(8,056)	(699)	(385)	(7,357)	1052.5%	(314)	81.6 %
Total Adjusted EBITDA	758,639	504,021	391,814	254,618	50.5%	112,207	28.6 %

For the Company's definition of EBITDA and Adjusted EBITDA, an explanation of why the Company presents it and a discussion of its limitations, see "Selected Financial Information – Other financial and operating data."

ii) Financial Condition, Liquidity and Capital Resources

Overview

Historically, the Company has generated, and expects to continue generating, positive cash flow from operations. The Company's principal capital needs are for working capital, capital expenditures related to maintenance, expansions and acquisitions, and debt service. The Company's ability to fund its capital needs depends on its ongoing ability to generate cash from operations, the terms of its financing arrangements, and its access to capital markets. The Company believes that its future cash from operations, together with its access to debt financing and the equity capital markets, will provide adequate resources to fund the Company's operating activities, capital expenditures, acquisitions and new business development activities.

A substantial portion of the capacity of the assets across the Company's business segments is under long-term agreements with customers, which provides the Company with a generally steady and predictable cash flow stream. The Company's counterparties with respect to the substantial majority of these agreements are stable, creditworthy, private or state-owned entities.

Cash flows from operating activities consist primarily of inflows from revenue and outflows for costs of revenues and increases in working capital needed to grow the Company's business. Cash flows used in investing activities represent investments in property, plant and equipment required for the Company's growth, in expansion and maintenance, and in acquisitions. Cash flows from financing activities are primarily related to changes in loans from unconsolidated affiliates to grow the Company's business, repayments of indebtedness with cash from operations, refinancing transactions and payments of dividends.

The Company expects that its cash flows from operations, as well as its capacity for future borrowings, will be sufficient to finance the liquidity requirements for the foreseeable future. The Company is also subject to certain capital requirements imposed by governmental agencies on the Company's regulated pipelines and natural gas distribution businesses.

Liquidity

The Company is a holding company. As a result, the Company's ability to meet its obligations depends primarily on the earnings and cash flows of its subsidiaries and investments in joint ventures, and the ability of those subsidiaries or joint ventures to pay dividends or distribute other amounts to the Company.

Capital Resources; Use of Proceeds

	Year ended December 31,		
(in thousands of U.S. Dollars)	**2017**	**2016**	**2015**
Net cash provided by operating activities	586,234	240,732	168,179
Net cash (used) in investing activities	(974,914)	(1,848,876)	(248,796)
Net cash generated by financing activities	406,584	1,605,461	41,892
Cash and cash equivalents at the end of the year	37,208	24,918	40,377

Operating Activities

In 2017, net cash provided by operating activities was USD$586.2 million, compared with USD$240.7 million in 2016, mainly due to a higher operations base as a result of the acquisitions of Gasoductos de Chihuahua and Ventika, and the start of operations of four pipelines, partially offset by changes in working capital.

In 2016, net cash provided by operating activities was USD$240.7 million, compared to USD$168.2 million in 2015. This increase was due primarily to a change in the Company's working capital, partially offset by paid taxes.

Investing Activities

The Company maintains financial resources sufficient to meet its financial commitments related to capital expenditures and other investing activities and those of its subsidiaries.

In 2017, net cash used in investing activities was USD$974.9 million, mainly due to USD$578.1 million to fund the South Texas – Tuxpan pipeline and capital expenditures of USD$253.0 million mainly related to our Ojinaga – El Encino pipeline, Sonora pipeline Guaymas – El Oro segment, San Isidro – Samalayuca pipeline, Empalme lateral pipeline and Veracruz marine terminal project, and USD$147.6 million for the acquisition of an additional 25 percent of Los Ramones Norte pipeline, net of cash available at the closing date.

The USD$258.5 million price paid for the assignment of Ductos y Energéticos del Norte's capital stock and the liquidation of certain shareholder loans is comprised of USD$164.8 million cash and the liquidation of certain shareholder loans of USD$95.8 million as shown in the cash flow from financing activities, minus value added tax of USD$2.1 million. The cash available at the closing date was USD$17.2 million.

In 2016, net cash used in investment activities was USD$1,848.9 million, due to the acquisition of Gasoductos de Chihuahua for USD$1,077.6 million, net of cash available at the date of acquisition; the acquisition of Ventika for USD $434.7 million, net of cash available at closing date, including shareholders' debt purchase by USD$125.0 million; capital expenditures of USD$315.8 million for the Ojinaga – El Encino pipeline, Sonora pipeline and San Isidro – Samalayuca pipeline projects, and the investment of USD$100.5 million in IMG; partially offset by restricted cash of USD$46.8 million, related to bank debt of Ventika and Gasoductos de Chihuahua; decrease in short-term investments of USD$20.0 million, and repayment of loans from unconsolidated affiliates of USD$8.3 million.

In 2015, net cash used in investing activities was USD$248.8 million, due to capital expenditures of USD$300.1 million for Sonora pipeline, Ojinaga - El Encino pipeline and San Isidro - Samalayuca pipeline projects, partially funded by proceeds from repayment of loans from unconsolidated affiliates of USD$41.6 million and a USD$10.0 million decrease in short-term investments.

Financing Activities

In 2017, net cash provided by financing activities was USD$406.6 million, due to USD$807.4 million of international senior note offerings, net of expenses, USD$331.2 million in net borrowings from unconsolidated affiliates, USD$360.5 million net bank loan payments, a dividend payment of USD$200.0 million, payment to Pemex Transformación Industrial loan of USD$95.8 million as part of the acquisition of an additional 25 percent of Los Ramones Norte pipeline, and interest paid of USD$75.6 million.

In 2016, net cash provided by financing activities was USD$1,605.5 million, mainly due to USD$1,567.7 million of proceeds from the common stock follow-on offering, net of expenses, USD$1,240.0 million in loans from unconsolidated affiliates and USD$805.0 million from borrowings against credit facilities, partially offset by USD$1,369.6 million repayment of unconsolidated affiliate loans, USD$459.5 million repayment of bank loans, a dividend payment of USD$140.0 million, and interest paid of USD$35.8 million.

In 2015, net cash provided by financing activities was USD$41.9 million, due to loans from banks and unconsolidated affiliates of USD$834.7 million, partially offset by a USD$600.1 million repayment of bank loans, a dividend payment of USD$170.0 million and interest paid of USD$20.2 million.

Summary of Relevant Financial Position Data

	As of December 31,		
(in thousands of U.S. Dollars)	**2017**	**2016**	**2015**
Finance lease receivable, current	8,126	7,155	—
Finance lease receivable, non-current	942,184	950,311	14,510
Property, plant and equipment	3,729,456	3,614,085	2,595,840
Intangible assets	190,199	154,144	—
Goodwill[(1)]	1,638,091	1,638,091	25,654
Total assets	**8,163,859**	**7,126,948**	**3,507,082**
Current liabilities	1,053,917	971,674	543,341
Non-current liabilities	2,593,355	1,804,963	783,877
Total liabilities	**3,647,272**	**2,776,637**	**1,327,218**
Total liabilities and equity	**4,516,587**	**4,350,311**	**2,179,864**

[(1)] During the last quarter of 2017, the Company received additional information on the Ventika deferred tax amount after the acquisition date; as a result, the Company decreased goodwill by USD$13.7 million. See note 13 to the audited financial statements of the Company, included in this Report.

In 2017, the liabilities increased by USD$850 million mainly due to the Senior Notes offering.

In 2016, the main changes in the consolidated statements of financial position relate primarily to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua, the acquisition of the 100% equity interest in the Ventika wind power generation facilities and the common stock follow-on offering.

In 2016, the finance lease receivables increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua.

In 2016, property, plant and equipment increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities.

In 2016, intangible assets increased due to the renewable transmission and consumption rights of Ventika, associated with projects approved under the preexisting self-supply program of renewable energy.

In 2016, goodwill increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities.

In 2016, long-term debt and its corresponding current portion increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities.

Financial Ratios

	As of December 31,		
	2017	**2016**	**2015**
Current assets/current liabilities	0.5 times	0.4 times	0.9 times
Total liabilities/total assets	45%	38%	33%
Total liabilities/stockholder's equity	81%	61%	50%
Days of sales in accounts receivable	29 days	33 days*	32 days

* Proforma

Debt

Historical

	As of December 31,		
(in thousands of U.S. Dollars)	**2017**	**2016**	**2015**
Short-term debt	199,395	493,571	88,507
Short-term debt with unconsolidated affiliates	510,009	248,580	339,600
Long-term debt with unconsolidated affiliates	73,510	3,080	38,460
Short-term debt related to CEBURES	102,000	—	—
Long-term debt related to CEBURES	306,000	408,000	408,000
Long-term bank debt	1,572,551	788,159	—

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013), for sale in connection with a public offering in Mexico for a series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion, and a series of 5-year, floating-rate Notes in the principal amount of Ps.1.3 billion which accrue interest at the TIIE rate plus 30 basis points. The Company used a portion of the proceeds from the sale of both series of Notes, or approximately USD$408 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and to finance the purchase of property, plant and equipment. On February 8, 2018, the Company paid Ps. 1.3 billion related to the second series, or 5-year CEBURES.

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrues interest at the rate of Libor plus 63 basis points *per annum*, payable on a quarterly basis.

On August 21, 2015 the Company entered into a five-year term, USD$400 million revolving credit facility loan agreement with SMBC, Santander, The Bank of Tokyo and Bank of Nova Scotia, in order to finance working capital needs, investments and general corporate purposes. Under its corresponding agreement, each loan accrues interest at the rate of Libor plus 90 basis points *per annum*, payable on a quarterly basis. On December 2015, the Company entered into an amendment to the revolving credit facility loan agreement to increase the available amount to USD$600 million. On November 2016, the Company entered into an amendment to the revolving credit facility loan agreement to increase the available amount from USD$600 million to USD$1,170 million. As of December 31,2017 the available, or unused amount of the revolving credit facility loan is USD$1,033 million.

On December 22, 2015, the Company entered into a 12-month, USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan accrued interest at equal to LIBOR plus 0.17%, payable on a quarterly basis. On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan of USD$800.0 million with Sempra Global, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 basis points. In October 2016, the company paid the principal and accrued interest with the net resources from the follow-on equity offering.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan of USD$350 million with Semco Holdco, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

On December 27, 2016, IEnova entered into two related party revolving credit facilities of USD$20.0 million with Peruvian Opportunity Company S. A. C. and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated, have a twelve-month term, with an option to extend up to four years in order to finance working capital needs and general corporate purposes. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 15, 2018. Under its corresponding agreement, each loan accrues interest at Libor plus 63 basis points, and interest is payable on a quarterly basis.

On March 17, 2017, the Company entered into an amendment to the SOT Suisse loan agreement, pursuant to which the maturity date was extended for seven years. The applicable interest rate is Libor plus 180 basis points, payable on a quarterly basis. As of December 31, 2017, the outstanding balance is USD$38.5 million.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points, and interest is payable on a quarterly basis.

On April 27, 2017, the Company entered into a loan agreement with POC for USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points, and interest is payable on a quarterly basis.

As of June 1, 2017 ISLA merged with ISL, which is the entity that remained after the merger. The conditions of the agreements between ISL and IEnova remain the same.

On June 26, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points, and interest is payable on a quarterly basis.

On August 23, 2017, the Company entered into a loan agreement with SEH for the amount of USD$132.8 million in order to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate is Libor plus 61 basis points, and interest is payable on a quarterly basis.

On September 29, 2017, the Company entered into a loan agreement with POC for USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points, and interest is payable on a quarterly basis.

On December 14, 2017, the Company completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% Senior Notes due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048.

On December 28, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 63 basis points, and interest is payable on a quarterly basis.

As of December 31, 2017, all of the Company’s long-term debt to unconsolidated affiliates was owed to its indirect controlling shareholder or its subsidiaries. The Company’s affiliate loans as of December 31, 2017 had maturities ranging from March 2018 through March 2024 and accrued interest at average annual rates ranging from 1.9% to 3.1%. See Note 6.1 to the Company's audited financial statements, included elsewhere in this report.

Tax Situation

As of December 31, 2017, the Company and its subsidiaries do not have significant tax debts.

Capital Expenditures

The Company expects to continue making investments in the Mexican energy infrastructure sector that generate stable cash flows and expand into related businesses to increase the Company's revenue and profitability. The Company intends to achieve this goal by pursuing a disciplined, targeted growth strategy, including:

- Investing in long-term essential energy infrastructure assets in Mexico;
- Continuing to expand the Company's network of energy assets in Mexico;
- Continuing to focus on assets that produce stable cash flows; and
- Maximizing the efficiencies and profitability of the Company's current energy assets.

For the years ended, December 31, 2017, 2016 and 2015 the Company made capital expenditures of USD$224.8 million, USD$315.8 million and USD$300.1 million, respectively. These capital expenditures included mainly expenditures related to acquisitions of property, plant and equipment for the development of the Ojinaga – El Encino pipeline, the Sonora pipeline and the San Isidro – Samalayuca pipeline.

The Company estimates that its capital expenditures for 2018, excluding expenditures made in connection with any business acquisitions, will be approximately USD$730 million, primarily related to expenditures for property, plant and equipment, expenditures for investments and capitalized interest summarized in the table below.

The following table contains a breakdown of the Company's expected capital expenditures by business segment in 2018, 2019 and 2020 (including capital expenditures in connection with the Company's joint venture with TransCanada):

Investment per segment (in millions of U.S. Dollars)	**2018**	**2019**	**2020**
Gas *	384	193	62
Electricity	201	228	26
Joint Ventures	210	77	26
Total Investment	**$ 795**	**$ 498**	**$ 114**

* Includes the investment in refined products storage facilities.

Contractual Arrangements

Historical

The following table contains a summary of the Company's contractual obligations as of December 31, 2017, after giving effect to the undiscounted cash flows associated with the Company's financial liabilities based on the earliest date on which the Company will be required to pay them and including the cash flows associated with payments of both principal and interest:

(in thousands of U.S. Dollars)	Menos de 1 año	1–2 años	3-5 años	Más de 5 años	Total
Due to unconsolidated affiliates	512,894	43,659	41,160	—	**597,713**
CEBURES	78,494	37,868	211,378	—	**327,740**
Bank loans	238,906	115,902	551,932	472,467	**1,379,207**
International debt Senior Notes	21,919	112,725	187,875	1,422,863	**1,745,382**
Derivative financial instruments	(38,978)	(3,032)	(12,579)	(141,516)	**(196,105)**
Total	**813,235**	**307,122**	**979,766**	**1,753,814**	**3,853,937**

In the ordinary course of business, the Company also enters into long-term supply arrangements with affiliates that are not reflected in the table above. In addition, in connection with the Company's transactions with derivative financial instruments, it is subject to the obligations described below under "– Quantitative and Qualitative Disclosures About Market Risk – Derivative Financial Instruments."

Off-Balance Sheet Arrangements

As of December 31, 2017, the Company did not have any off-balance sheet arrangements.

Quantitative and Qualitative Information Related to Market Risk

Derivative Financial Instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in the Company's audited financial statements, Note 24, included elsewhere in this report.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

Embedded Derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Own Use Exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

Financial Risk Management Objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments is appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

Market Risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The indirect parent Company's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

For a description of the interest rate swaps that the Company entered into in connection with the CEBURES, see "Material Financing Arrangements".

Value at Risk (VaR) Analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95 percent confidence interval in its VaR calculations. The one-day 95 percent VaR number reflects the 95 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day), by risk type (in thousands of U.S. Dollars)	**As of December 31,**		
	2017	**2016**	**2015**
Interest rate swaps	2,581	4,025	3,761
Total VaR exposure	2,452	3,824	3,573

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95% confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations, and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.1 to the Company's audited financial statements, included elsewhere in this report.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Refer to Note 24.4 to the Company's audited financial statements, included elsewhere in this report.

Foreign Currency Risk Management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it has balances in Mexican Pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	Al 31 de diciembre		
(in thousands of U.S. Dollars)	**2017**	**2016**	**2015**
Monetary assets			
U.S. Dollar-functional currency subsidiaries	746,038	171,463	159,824
Mexican peso-functional currency subsidiaries	33,594	19,900	30,110
Monetary liabilities			
U.S. Dollar-functional currency subsidiaries	853,067	779,000	585,062
Mexican peso-functional currency subsidiaries	26,478	34,102	31,713

For the Company's U.S. Dollar functional currency subsidiaries the Mexican Peso balances include bank accounts and short-term investments, VAT, IT and Flat Tax (IETU by initials in Spanish) receivables or payables, prepaid expenses, guarantee deposits, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, the U.S. Dollar balances include bank accounts, intercompany loans, trade accounts payable and provisions.

Exchange rates in effect as of the date of the Consolidated Financial Statements and their issuance date are as follows.

	As of December 31,			
	2017	**2016**	**2015**	**Feb 20, 2018**
One U.S. Dollar	$19.7354	$20.6640	$17.2065	$18.4797

Foreign Exchange Sensitivity Analysis

The following table details the Company's profit and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

(in thousands of U.S. Dollars)	**U.S. Dollar-functional currency subsidiaries**			**Mexican peso-functional currency subsidiaries**		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Profit (loss)[(i)]	6,811	38,662	27,061	(453)	898	94
Other comprehensive income	—	—	—	2,580	(9,486)	(5,692)

[(i)] This is mainly attributable to the exposure to outstanding Mexican peso receivables in the U.S. Dollar functional currency subsidiaries at the end of each reporting period.

The U.S. Dollar functional currency subsidiaries' sensitivity to foreign currency has decreased during the years ended December 31, 2017, 2016 and 2015 mainly due to the increase in loans granted to unconsolidated related parties.

The Mexican Peso functional currency subsidiaries' sensitivity to foreign currency has decreased during the years ended December 31, 2017, 2016 and 2015 mainly due to lower amount of accounts receivable and accounts payable.

Interest Rate Risk Management

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of USD$450 million from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of USD$30 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within the other gains and losses line item. As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of USD$151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and payed a fixed interest rate of 5.0 percent. The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a payment in the amount of USD$29.8 million and as a result, such derivative was cancelled. The change in the fair value and the settlement of the interest rate swap were recognized in the Company's audited financial statements, note 24.5 included elsewhere in this report.

Interest rate swap contracts entered into by the Company's joint ventures

The joint venture with InterGen entered into swap contracts to effectively hedge financing interest rate risk. See note 10.2 (b) to the Company's audited financial statements, included elsewhere in this report.

The joint venture with Pemex TRI entered into swap contracts to effectively hedge financing interest rate risk. See note 10.5 (b) to the Company's audited financial statements, included elsewhere in this report.

The fair value of derivative financial instruments is based on the market values □□in force as of the date of the consolidated financial statements, which impact the investments in the joint business against current profits.

The Company's management considers that the result of the sensitivity analysis of these derivatives is insignificant.

Credit Risk Management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties' contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In the natural gas distribution business, ECOGAS, depending on the type of service requested by the customer, different criteria are applied as follows:

- Minor customers (residential customers for household consumption):
- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, which are confirmed, and
- Registration with tax agency for commercial customers with minor consumption

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100% of the balances of major customers by the credit and collection department to ensure sure that payments are made in a timely manner and that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty nonperformance.

For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements, and therefore, rely on these agreements for future performance.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the parent Company's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2017, projects were funded with resources obtained from the Global Offering (Note 1.2.6 to the Company's audited financial statements, included elsewhere in this report). The Company´s current liabilities exceed its current assets mainly due to loans from unconsolidated affiliates and short-term debt. As explained in Note 21 to the Company's audited financial statements, included elsewhere in this report, the Company has USD$1,033 million of available, or unused, lines of credits with banks.

iii) Internal Controls

The Company's management is responsible for maintaining a system of internal control over financial reporting. This system gives the Company's shareholders reasonable assurance that its transactions are executed and maintained in accordance with the guidelines set forth by the Company's management and its financial records are reliable as a basis for preparing its financial statements.

The system of internal control over financial reporting is supported by ongoing audits, the results of which are reported to management throughout the year. In addition, the Company maintains reliable databases and has modern and efficient systems designed to generate key financial information in real time. These systems also facilitate the efficient preparation of the Company's financial reports.

To fulfill its responsibilities regarding the integrity of financial reporting, the Company's management maintains and relies on its system of internal control over financial reporting. This system is based on an organizational structure that delegates responsibility and ensures selection of competent personnel. The system also includes policies that are communicated to appropriate employees.

The Company's system of internal control over financial reporting has the following primary goals:

- Issue reliable, timely and meaningful financial information;
- Delegate authority and assign responsibilities for achieving the system's goals and objectives;
- Establish proper business practices within the Company's organization; and
- Provide administrative control methods to help oversee and monitor compliance with the Company's policies and procedures.

The Company has manuals that establish its policies and procedures regarding the implementation and promotion of the Company's business, the control and monitoring of transactions involving the acquisition, promotion, distribution or sale of the Company's subsidiaries, and the controls in the areas of human resources, finance, accounting, legal, tax and data processing, among others.

e) Critical Accounting Estimates, Provisions and Reserves

Critical Accounting Judgments and Key Sources for Estimating Uncertainties

In the application of the accounting policies of the Company, management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Financial Statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the change affects both the current period and to subsequent periods.

Critical Judgments Used in Applying the Company's Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Finance Lease

Management has determined that certain arrangements should be accounted for as a finance leases at the present value of the minimum lease payments at inception date of the arrangement. See Note 8 to the Company's audited financial statements, included elsewhere in this report.

Regulatory Accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products according to regulations, often where an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2017, 2016 and 2015, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB issued IFRS 14, Regulatory deferral accounts on January 30, 2014, as a part of its project on this matter; however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the consolidated statements of financial position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

Own Use Exemption

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement," contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's "own use." The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts that are not used for operational purposes as derivative instruments. If a non-financial item can be settled "net" using cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be net settled. In applying judgment to assess whether net settlement is likely, the Company's management takes into account past practices with respect to net settlement under similar contracts, past practices with respect to taking delivery and selling the item within a short period, and whether the commodity is readily convertible into cash.

The Company's management reviews each physical delivery arrangement for non-financial items to determine whether a non-financial item falls within the own use exemption from derivative accounting treatment.

Determining Whether an Arrangement Contains a Lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine whether based on facts and circumstances existing at the inception of the contract, there is only a remote chance that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

Accounting for Joint Ventures

Interests in associated entities and joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profits or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's consolidated statements of financial position.

Estimated Useful Life of Property, Plant and Equipment

As described in Note 2.14 to the Company's audited financial statements included elsewhere in this report, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. See Note 14.1 to the Company's audited financial statements, included elsewhere in this report, for useful lives of property, plant and equipment.

Impairment of Long-Lived Assets (Goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

Asset Decommissioning Obligations

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the consolidated statements of financial position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

Valuation of Financial Instruments (Fair Value Measurement)

As described in Note 24 to the Company's audited financial statements, included elsewhere in this report, the Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Note 24 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Allowance for Doubtful Accounts

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5 to the Company's audited financial statements included elsewhere in this report. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

Recoverability of Deferred Tax Assets

As mentioned in Note 25 to the Company's audited financial statements included elsewhere in this report, the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

Measurement of Defined Benefit Obligations: Key Actuarial Assumptions

As described in Note 17 to the Company's audited financial statements included elsewhere in this report, the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

GdC acquisition, selected valuation methodology

IEnova Pipelines, formerly Gasoductos de Chihuahua, is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the fair value of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of fair value for IFRS purposes

Ventika acquisition, selected valuation methodology

Based on the nature of the power facility and generally accepted industry practice, the Company relied on the Income Approach, specifically the Discounted Cash Flow method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive the fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to the fair value estimate derived utilizing the Income Approach. It is noted that the Company's derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

Ductos y Energéticos del Norte acquisition, selected valuation methodology

Ductos y Energéticos del Norte acquisition does not comply with the business acquisition definition, due to the fact that it does not have any substantive processes or revenues since Ductos y Energéticos del Norte's main asset is the investment it has in TAG, which owns the Los Ramones Norte Pipeline. Therefore, the transaction was recorded as an acquisition of assets. The excess of the consideration paid in cash compared to the fair value of the assets acquired and the assumed liabilities was recognized on a fair value basis as a re-measurement of the investment in TAG and the acquired intangible asset. See notes 11.3 and 15 (b) to the audited financial statements included elsewhere in this Report.

MANAGEMENT

a) Independent Auditors

Independent auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., members of Deloitte Touche Tohmatsu Limited, whose offices are located in Mexico City. The Company's independent auditors were selected by the audit committee on the basis of their expertise and service and quality standards.

Galaz, Yamazaki, Ruiz Urquiza, S.C., has been the Company's independent auditors since 1996. In the past three years they have not issued any qualified or negative opinion or abstained from issuing an opinion with respect to the Company's financial statements.

The Company's audited financial statements included in this report have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C. In 2017 the Company paid its independent auditors fees of approximately USD$1.3 million. In addition, the Company paid Galaz, Yamazaki, Ruíz Urquiza, S.C. fees of approximately USD$318,518 for other, non-auditing services that did not affect their independent status.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

b) Related Party Transactions and Conflicts of Interest

The following is a description of each transaction that represents an amount in excess of USD$120,000 to which the Company has been a party since January 1, 2015, and in which one or more of its directors, senior officers or their respective affiliates or family members, or its indirect controlling shareholder or its affiliates has had or will have a material direct or indirect interest. The Company believes that the terms of each such transaction and the consideration that the Company paid or received in connection therewith were comparable with the terms the Company would have obtained and the consideration the Company would have paid or received in an arm's length transaction with a third party.

In the ordinary course of business, the Company engages in a number of transactions with its indirect controlling shareholder and with companies that are owned or controlled, directly or indirectly, by its indirect controlling shareholder or its affiliates.

Intercompany Loan Agreements

Outstanding Loans from Related Parties as of December 31, 2017

The Company has revolving credit facilities in place with several affiliates of its indirect controlling shareholder as lenders. The Company may prepay all or part of the outstanding amount under each loan without penalty. The following table summarizes the key terms of these credit facilities as of December 31, 2017:

Lender	Loan Limit USD$ millions	Principal Outstanding USD$ millions	Interest Rate	Maturity Date
Inversiones Sempra Limitada	275	275	Libor + 60 bps, Libor + 63 bps	March and December 2018
Sempra Energy Holdings XI BV	133	133	Libor + 61 bps	February 2018
Peruvian Opportunity	102	102	Libor + 60 bps, Libor + 63 bps, Libor + 70 bps	April, June, September and December 2018
Sempra Oil Trading	50	38	Libor + 180 bps	March 2024
TAG Pipelines Norte	35	35	Libor + 290 bps	December 2021

Loans with Inversiones Sempra Limitada

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates, Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrues interest at the rate of Libor plus 63 basis points *per annum*, payable on a quarterly basis.

On December 27, 2016, IEnova entered into a related parties revolving credit facility for USD$70 million with ISLA in order to finance working capital needs and general corporate purposes. Term is twelve months with an option to be extended up to four years. The applicable annual interest rate is 1.75% payable on a quarterly basis.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points payable on a quarterly basis.

As of June 1, 2017 ISLA merged with ISL, which is the entity that remained after the merger. The conditions of the agreements between ISL and IEnova remain the same.

Loans with Sempra Energy Holding XI B.V.

On August 23, 2017, the Company entered into a loan agreement with SEH for USD$132.8 million to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate is Libor plus 61 basis points payable on a quarterly basis. On February 6, 2018, the Company entered into an amendment to this loan agreement, pursuant to which the maturity date was extended to August 22, 2018.

Loans with Peruvian Opportunity Company (POC)

On December 27, 2016, IEnova entered into a related party revolving credit facility for USD$20 million with POC, in order to finance working capital needs and general corporate purposes. Term is twelve months, with an option to be extended up to four years. The applicable annual interest rate is LIBOR plus 63 basis points payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to this loan agreements, pursuant to which the maturity date was extended to December 15, 2018.

On April 27, 2017, the Company entered into a loan agreement with POC for the amount of USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 60 basis points payable on a quarterly basis.

On June 26, 2017, the Company entered into a loan agreement with POC for USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points payable on a quarterly basis.

On September 29, 2017, the Company entered into a loan agreement with POC for USD$21 million to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 70 basis points payable on a quarterly basis.

On December 28, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is Libor plus 63 basis points payable on a quarterly basis.

Loan with Sempra Oil Trading

As of January 1, 2013, the Company had a credit in its balance of USD$38.5 million with Sempra Oil Trading Suisse. The remaining amount under the provisions of the loan as of December 31, 2017 is USD$38.5 million.

On March 17, 2017, the Company signed an amendment agreement with SOT Suisse in order to extend the loan for seven years. The applicable interest rate is LIBOR plus 180 basis points payable quarterly.

Loan with TAG Pipelines Norte

On December 19, 2017, the Company entered into a loan agreement with TAG for the amount of USD$35 million in order to finance working capital needs and general corporate purposes. The loan term is four years. The applicable annual interest rate is six-month Libor plus 290 basis points payable on a semi-annual basis.

Loans from Related Parties, fully repaid as of December 31, 2017

Loan with Sempra Energy Holding XI B.V.

On December 22, 2015, the Company entered into a 12-month, USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan accrues interest at equal to LIBOR plus 0.17%, payable on a quarterly basis. On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the follow-on equity offering, the Company repaid the outstanding balance of USD$99.5 million.

Loan with Sempra Global

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD $800 million with Sempra Global in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 basis points. In October 2016, the company paid the principal and accrued interests, with the net resources from the follow-on equity offering.

Loan with Semco Holdco

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount USD$350 million with Semco Holdco in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was Libor plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

Loan with Ductos y Energéticos del Norte

On August 8, 2016, Ductos y Energéticos del Norte granted a loan of USD$3 million to Gasoductos del Sureste, with a term of 10 years and a fixed interest rate of 5.65%. On November 17, 2017, this loan was paid in full, both principal and interest.

Guaranties and Letters of Credit

The Company's indirect controlling shareholder, Sempra Energy, provides credit support (including direct guaranties and letters of credit issued by third parties that are to be drawn on the account of Sempra Energy) for certain of the Company's obligations, including the following:

Obligor	Beneficiary of Guaranty/Letter of Credit	Secured Obligations	Maximum Amount USD$ millions
Termoeléctrica de Mexicali	Gasoducto Rosarito	Firm transportation services agreement dated February 26, 2002	29.4
IEnova Marketing	Gasoducto Rosarito	Interruptible transportation services agreement dated December 18, 2009	3.9
IEnova Marketing	Gasoducto Rosarito	Firm transportation services agreement dated May 01, 2008	59.6
IEnova Marketing	Gasoducto Rosarito	Firm transportation services agreement dated February 15, 2002	62.3
IEnova Marketing	Transportadora de Gas Natural de Baja California	Firm transportation services agreement dated May 01, 2008	46.6
IEnova Marketing	Energía Costa Azul	Firm storage services agreement dated November 29, 2004	282
Energía Costa Azul	Shell	Firm storage services agreement dated April 17, 2009	unlimited
Energía Costa Azul	Gazprom	Firm storage services agreement dated April 17, 2009	unlimited
Energía Sierra Juárez	Ejido Cordillera Molina	Lease agreement dated June 10, 2007	5
IEnova	CFE	Letter of credit from Banco Santander (México), dated October 31, 2012, in favor of the Mexican Federal Electricity Commission	85
IEnova Marketing	CFE	Electricity supply agreement dated January 21, 2005	85
IEnova Marketing	CFE	Letter of credit from BBVA (México), dated December 5, 2014, in favor of the Mexican Federal Electricity Commission	90

Power Purchase Agreements

In January 2013 the Company entered into an electricity management agreement with its U.S. affiliate, Sempra Generation. Pursuant to this agreement, which is effective as of January 1, 2012, Sempra Generation has marketed and served as scheduling coordinator for the Company's electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on the Company's behalf. Under this agreement, the Company reimburses Sempra Generation's expenses in connection with these services and pays Sempra Generation an annual energy services fee based on the level of service provided to the Company's Termoeléctrica de Mexicali power plant (depending on, among other factors, the amount of energy scheduled and sold by Sempra Generation). In 2016, this agreement was transferred to SGPM. The term of this agreement runs through 2017 with annual renovations. During the years ended December 31, 2017, 2016 and 2015 the Company paid Sempra Generation and SGPM an aggregate of USD$5.1 million, USD $5.5 million and USD$4.7 million, respectively, under this agreement. During the years ended December 31, 2017, 2016 and 2015 Sempra Generation and SGPM paid to Termoeléctrica de Mexicali approximately USD$130.0 million, USD$107.0 million and USD$143.1 million, respectively, under this agreement.

Natural Gas Purchase and Sale Agreement

In January 2013 the Company entered into a scheduling agreement with Sempra Generation, an affiliate of the Company's indirect controlling shareholder, which became effective September 1, 2014. Pursuant to this agreement, Sempra Generation provides scheduling and coordination services relating to delivery of natural gas to the Company's customers, including the Mexican Federal Electricity Commission, and to the Company's Termoeléctrica de Mexicali facility. These scheduling and coordination services replaced those formerly provided by JPM Ventures Energy pursuant to an agreement that expired in September 2014, at similar prices. During the years ended December 31, 2017, 2016 and 2015 the Company paid Sempra Generation an aggregate of USD$5.6 million, USD$4.4 million and USD$2.1 million, respectively, for scheduling and coordination services provided to us. The agreement with Sempra Generation will expire on December 31, 2022.

Transportation Services Agreements

The Company has entered into a firm transportation services agreement with Southern California Gas Company, or SoCalGas, an affiliate of the Company's indirect controlling shareholder, whereby SoCalGas transports natural gas for the Company's distribution business from the United States to the Mexico–U.S. border near Mexicali. The Company pays for these transportation services based on applicable rate provisions filed with the California Public Utilities Commission. During the years ended December 31, 2017, 2016 and 2015 the Company paid approximately USD$1.3 million, USD$1.5 million and USD$1.0 million, respectively, for transportation services provided by SoCalGas Company pursuant to this agreement.

The Company has also entered into several agreements with SoCalGas for natural gas transportation services on the Rosarito pipelines system and TGN pipeline. These interruptible transportation services agreements renew monthly and may be terminated by either party upon 30 days' notice. Amounts received by the Company under these agreements in 2017 were USD$0.2 million and less than USD$120,000 for each of the years ended December 31, 2016 and 2015.

LNG Purchase and Sale Agreement with Sempra Natural Gas

The Company's subsidiary IEnova Marketing purchased LNG from Sempra Natural Gas pursuant to an LNG purchase and sale agreement that expired in January 2013. Pursuant to the terms of this agreement, Sempra Natural Gas agreed to sell and IEnova Marketing agreed to purchase up to 8.2 million m^3 (1,880 MMTh) of LNG annually. To the extent that Sempra Natural Gas delivered to IEnova Marketing less than such amount of LNG, Sempra Natural Gas made payments to IEnova Marketing pursuant to this agreement to cover terminal and pipeline capacity fixed costs associated with each cargo not delivered.

In January 2013, the Company terminated the prior agreement under which it purchased LNG from Sempra Natural Gas and replaced it with a new long-term LNG sale and purchase agreement with Sempra Natural Gas. While the material terms of the new agreement are substantially similar to those of the prior agreement, it does differ in two material respects. First, the new agreement provides that Sempra Natural Gas will make a limited number of LNG cargoes available to the Company for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. Second, the new agreement corrected unintended economic consequences that resulted in larger payments being made by Sempra Natural Gas to the Company under the prior agreement when the number of cargoes delivered annually under the prior agreement was substantially lower than had been anticipated when the prior agreement had been entered into. This new LNG purchase and sale agreement with Sempra Natural Gas expires in August 2029.

In July 2015, the Company and Sempra LNG International Holdings, LLC entered into a deed of indemnity pursuant to which the payments owed to the Company in the event that Sempra Natural Gas fails to deliver to the Company 8.2 million of m^3 (1,880 MMTh) of LNG per year will be made by Sempra LNG International Holdings, LLC. On the same date, and in order to induce the Company to enter into this deed of indemnity, Sempra Global issued a guarantee pursuant to which it guaranteed the payment obligations of Sempra LNG International Holdings LLC under the deed of indemnity.

During the years ended December 31, 2017, 2016 and 2015, IEnova Marketing paid Sempra Natural Gas approximately USD$190.0 million, USD$166.8 million and USD$190.5 million, respectively, for purchases of LNG under this agreement, and Sempra Natural Gas paid IEnova Marketing approximately USD$103.0 million, USD$102.0 million and USD$101.0 million, respectively.

In January 2013, IEnova Marketing and Sempra Natural Gas terminated their prior LNG purchase and sale agreement and entered into a new LNG purchase and sale agreement that became effective September 1, 2014. Under the new agreement the Company is required to pay for natural gas at the prevailing market rate plus 1%. The new agreement expires December 31, 2022.

Amended and Restated LNG Sale and Purchase Agreement with the Tangguh Partners

The Company's U.S. affiliate, Sempra Natural Gas, purchases LNG from suppliers, including pursuant to a long-term contract with the Tangguh partners (a consortium of companies that produce LNG in the Tangguh LNG Project in Indonesia) that have agreed to sell up to 8.2 million m^3 (1,880 MMTh) of LNG to Sempra Natural Gas annually. However, the Tangguh partners may elect to divert all but a limited number of LNG cargoes annually to purchasers other than this U.S. affiliate. Having non-divertible cargoes available under the Company's U.S. affiliate's agreement with the Tangguh partners increases the likelihood that the Company's LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that the Company will be able to satisfy at least some portion of the Company's natural gas customer commitments by selling natural gas that has been regasified at the Company's LNG terminal. The Company's U.S. affiliate's agreement with the Tangguh partners expires in 2029, and the Company is a party to the agreement solely with respect to the scheduling of delivery of LNG cargoes and to coordinate the parties' rights with respect to the use of the Company's marine terminal.

Service Agreements

The Company has contracted with various affiliates of the Company's indirect controlling shareholder for certain services provided to the Company in the ordinary course of the Company's business, including financial, marketing, commercialization, regulatory, engineering, technical and information systems services, as well as operational and management support. These agreements generally provide for reimbursement for expenses incurred plus a 5% to 7.5% markup and may be terminated by either party upon 30 days' notice. The following is a summary of these transactions:

- Sempra Services Company, a liquidated company, provided services to gas and power segments, including administrative services. During the year ended December 31, 2015, the Company paid Sempra Services Company approximately USD$0.1 million, for these services.

- Sempra U.S. Gas & Power provides software and IT services to the Company's corporate segment. During the years ended December 31, 2017, 2016 and 2015, the Company paid Sempra U.S. Gas & Power approximately USD$6.9 million, USD$6.9 million and USD$6.7 million, respectively, for these services.

Gas Control and Monitoring Agreements

The Company has entered into gas dispatch and transportation services agreements with Sempra Midstream, an affiliate of the Company's indirect controlling shareholder. Pursuant to these agreements, Sempra Midstream provides monitoring and gas control services, using electronic monitoring and control systems owned by us, in order to optimize pipeline capacity and operations and enable the Company to timely respond to operational events or emergencies affecting the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station. The agreements were entered into on January 1, 2011 and have a term of 10 years. Sempra Midstream may terminate these agreements if the Company and Sempra Midstream cease to be under the common control of the Company's indirect controlling shareholder. During the years ended December 31, 2017, 2016 and 2015, the Company paid Sempra Midstream approximately USD$0.5 million, USD$0.7 million and USD$0.7 million, respectively, for these services. The amounts that the Company pays Sempra Midstream for these services will be adjusted for inflation in future years.

Other Related Party Transactions

The Company's indirect controlling shareholder and its affiliates pay fees to the Company for certain administrative services and for the use of the Company's facilities. During the years ended December 31, 2017, 2016 and 2015, the Company received approximately USD$1.8 million, USD$1.7 million and USD$1.7 million, respectively, for these services.

Sempra International provides the Company with professional services pursuant to various agreements with the Company's subsidiaries. During the years ended December 31, 2017, 2016 and 2015, the Company paid Sempra International approximately USD$7.3 millions, USD$8.2 million and USD$5.8 million, respectively, for these services.

Agreements with Joint Ventures

On April 21, 2017, the Company entered into a revolving credit agreement for up to MXN$9,042 millions with IMG (Infraestructura Marina del Golfo, S. de R.L. de C.V.) in order to finance capital expenditures and general corporate expenses for the construction of the South of Texas - Tuxpan pipeline. The term is five years and the loan accrues interest at 91-day TIIE plus 220 basis points payable on a quarterly basis. The accrued interest will be capitalized until the start of operations of the pipeline.

On December 15, 2014, Ductos y Energéticos del Norte, a subsidiary of the Company from November 2017, entered into an agreement with TAG Pipelines Norte for providing the operation and maintenance services to the facilities of the Los Ramones Norte pipeline, with a term of 25 years. In 2017, the Company received revenue of approximately USD$3.7 million related to this contract.

On April 1, 2017, Gasoductos y Servicios Corporativos de Administración, a subsidiary of the Company, entered into an agreement with TAG Pipelines Norte for providing personnel services to the Los Ramones Norte pipeline, with a term of 25 years. In 2017, the Company received revenue of approximately USD$1.7 million related to this contract.

On September 30, 2013, CSJ, a subsidiary of the Company, entered into a revolving credit agreement facility with Energia Sierra Juarez for up to USD$50 million, which was increased to up to USD$200 million on March 21, 2014 in order to finance capital expenditures and general corporate purposes. The loan accrues interest at one-month Libor plus 637.5 basis points. As of December 31, 2017, the outstanding balance is USD$6.7 million.

BOARD OF DIRECTORS

c) Management and Shareholders

Pursuant to its bylaws, the Company is managed by a board of directors. The Company is subject to certain corporate governance and management rules established in its bylaws and the Mexican Securities Market Law, as discussed below. This discussion does not purport to be complete and is qualified by reference to the Company's bylaws and the applicable provisions of the Mexican Securities Market Law, the General Rules for Securities Issuers and the regulations issued by the Mexican Stock Exchange.

Board of Directors

The Company's board of directors currently consists of eleven members and is responsible for managing its businesses. Each director is appointed to serve for one year and may be reelected, but must remain in office until a successor has been appointed and taken office. Directors may be removed at any time by a decision of the Company's shareholders at a general shareholders' meeting. The members of the Company's board of directors are elected by the Company's shareholders. The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate.

Under Mexican law, at least 25% of the members of the board of directors must be "independent" within the meaning assigned to such term in the Mexican Securities Market Law. The Company's bylaws provide for an alternate director to serve in place of an elected director if such director is unable to attend a meeting of the board of directors.

The current members of the Company's board of directors were elected or reelected at the general ordinary shareholders' meeting, held on April 27, 2018.

The following table sets forth certain information regarding the current members of the Company's board of directors:

Name	Age	Sex	Title	First appointed
Carlos Ruiz Sacristán	68	Male	Chairman of the Board	July 2012
Joseph Allan Householder	63	Male	Director	March 2013
Martha Brown Wyrsch	60	Female	Director	April 2017
Dennis Victor Arriola	58	Male	Director	April 2017
Peter Wall	47	Male	Director	April 2018
Faisel Khan	43	Male	Director	April 2018
Kevin Christopher Sagara	57	Male	Director	April 2017
Jeffrey Stephen Davidow	74	Male	Director*	March 2013
Aarón Dychter Poltolarek	65	Male	Director*	March 2013
Alberto Mulás Alonso	57	Male	Director*	April 2017
José Julián Sidaoui Dib	65	Male	Director*	February 2017
Rodrigo Cortina Cortina	49	Male	Secretary (not a Director)	June 2012

*Independent director within the meaning of the Mexican Securities Market Law.

The following is a summary of the experience and principal business interests of the current members of the Company's board of directors:

Carlos Ruiz Sacristán. Mr. Ruiz is the Company's Chief Executive Officer and Chairman of the Board since June 2012. From 2007 until his appointment as Chairman of the Board in June 2012, he served on Sempra Energy's board. From 1994 to 2000, Mr. Ruiz served as Mexico's Secretary of Communications and Transportation during the administration of President Ernesto Zedillo. Previously, from 1974 to 1988 he held various positions at Mexico´s Central Bank (Banco de México), the Mexican Ministry of Finance and Public Credit from 1988 to 1992, and Petróleos Mexicanos in 1994. Mr. Ruiz holds a Bachelor's Degree in Business Administration from Universidad Anáhuac in Mexico City and an M.B.A. from Northwestern University. He currently serves on the boards of directors of Southern Copper Corporation, Banco Ve por Más, S.A. de C.V., Grupo Creatica, S.A. de C.V., the Technical Committee of Diego Rivera and Frida Kahlo Museums and the Technical Committee of the National Museum of Energy and Technology.

Joseph Allan Householder. Joseph Allan Householder is a member of the Company's board of directors and Corporate Group President of Infrastructure Businesses of Sempra Energy. In this position, he oversees Sempra Energy operations in midstream, liquefied natural gas, renewable energy and Mexico. Previously, from 2011 to 2016, Householder served as Sempra Energy's Executive Vice President and Chief Financial Officer. From 2007 to 2011, Mr. Householder was Senior Vice President, Controller and Chief Accounting Officer of Sempra Energy, responsible for financial reporting, accounting and controls, and tax functions for the Sempra Energy companies. Prior to that, he served as Vice President of Corporate Tax and Chief Tax Counsel for Sempra Energy, overseeing Sempra Energy's worldwide tax affairs. Before joining Sempra Energy in 2001, Mr. Householder was a partner at PricewaterhouseCoopers in the firm's national tax office. Previously, he was Vice President of Corporate Development and assistant chief financial officer of Unocal, where he was responsible for worldwide tax planning, financial reporting and forecasting, and risk-management compliance. Earlier in his career, Mr. Householder served as an attorney and certified public accountant at several firm in the Los Angeles area. Mr. Householder currently serves on the board of directors of Advanced Micro Devices and is a member of the Tax Executives Institute, the American Institute of Certified Public Accountants, the State Bar of California and the American Bar Association. Mr. Householder holds a bachelor's degree in business administration from the University of Southern California and a law degree from Loyola Law School. Additionally, he has completed the executive program at the UCLA Anderson School of Management.

Martha Brown Wyrsch. Martha Brown Wyrsch is a member of the Company's board of directors and executive vice president and general counsel for Sempra Energy. As executive vice president and general counsel, Wyrsch oversees all of Sempra Energy's legal affairs, the office of Corporate Secretary and Compliance. From 2009 to 2012, she served as president of Vestas American Wind Systems, the Portland, Ore.-based affiliate of Danish-owned Vestas Wind Systems A/S. As president, Wyrsch had direct responsibility for all North American sales, construction, service and maintenance. As chair of the Vestas North American Regional Council, she also had coordinating oversight of North American-based manufacturing, supply chain and other support functions. Previously, Wyrsch served nearly 10 years at Duke Energy and its spin-off, Spectra Energy Corp. She was president and CEO of Duke Energy Gas Transmission beginning in 2005. Subsequently, she became president and CEO of Spectra Energy Transmission, overseeing its natural gas transmission and storage business in the U.S. and Canada, as well as its gathering, processing and distribution businesses in Canada. She joined Duke Energy in 1999 as senior vice president of legal affairs and deputy general counsel and was promoted to group vice president and general counsel in 2004. Prior to joining Duke Energy, Wyrsch worked at KN Energy, Inc., from 1991 to 1999 where she served as vice president, general counsel and secretary as well as a variety of other senior legal roles. Previously, she was an attorney with Davis, Graham & Stubbs in Denver, specializing in corporate law, with a focus on oil and gas, real estate transactions, as well as securities and finance filings. From 1980 to 1983, Wyrsch was a legislative assistant to former U.S. Sen. Alan Simpson (R-Wyo.), responsible for matters in the areas of energy, environment, health and safety, transportation and banking. She currently serves on the board of directors of Spectris PLC and Cristo Rey Network. Wyrsch holds a bachelor's degree in English Literature from the University of Wyoming and a law degree from George Washington University. She also completed Harvard Business School's Advanced Management Program.

Dennis Victor Arriola. Dennis Victor Arriola is a member of the Company's board of directors and executive vice president of corporate strategy and external affairs, and chief sustainability officer for Sempra Energy. In his current role, Arriola oversees Sempra Energy's long-term strategy review, as well as communications, government relations, regulatory and international affairs activities, and corporate social responsibility. Previously, he served as chairman, president and CEO of Southern California Gas Company (SoCalGas), one of Sempra's regulated California utilities. Arriola spent most of the past 23 years in a broad range of leadership roles for the Sempra companies. He served as president and chief operating officer of SoCalGas beginning in 2012, until he was promoted to CEO in 2014. From 2008 to 2012, Arriola left Sempra to work as executive vice president and chief financial officer for SunPower Corp., a Silicon Valley-based solar panel manufacturer. From 2006 to 2008, he was senior vice president and chief financial officer of both San Diego Gas & Electric and SoCalGas. Previously, Arriola also served as vice president of communications and investor relations for Sempra, and regional vice president and general manager of Sempra's South American operations. He first joined the company in 1994 as treasurer for Pacific Enterprises/SoCalGas. Arriola serves on the boards of directors for the California Business Roundtable (prior chairman of the board), California Latino Economic Institute and the San Diego Regional Economic Development Corporation (executive committee). Arriola also serves on the boards of directors for several Sempra business units, including Chilquinta Energía in Chile (chairman of the board) and Luz Del Sur in Peru (chairman of the board). He has been actively involved in the United Way's efforts to implement Linked Learning in association with the Los Angeles Unified School District. Arriola holds a bachelor's degree in economics from Stanford University and a master's degree in business administration from Harvard University.

Peter Wall. Peter Wall is a member of the Company's board of directors and vice president and chief financial officer at Sempra Infrastructure, LLC, leading the accounting, finance and risk & structuring groups at Sempra Renewables and Sempra LNG & Midstream. Prior to his current position, he was vice president and chief financial officer for Sempra U.S.

Gas & Power. Wall served as assistant corporate controller at Sempra Energy, where he led various teams overseeing technical accounting, planning and corporate accounting functions. Wall began his professional career at Ernst & Young LLP, where he worked with numerous multinational companies, including many in the power & utility sector. Wall is a certified public accountant and holds bachelor's and master's degrees in accounting from the University of Utah.

Faisel Khan. Faisel Khan is a member of the Company's board of directors and vice president of investor relations for Sempra. Khan is responsible for communicating Sempra Energy's disciplined focus for delivering long-term shareholder value to the investment community. Khan previously was a managing director for Citigroup in New York, covering the natural gas, pipeline, midstream, refining and master limited partnership industries. Khan was ranked as one of the top financial analysts in the natural gas sector for 11 consecutive years by the Institutional Investor Survey. Prior to joining Citigroup in 2005, Khan worked for six years at Credit Suisse First Boston, first in investment banking and, later, as an equity research analyst following the integrated pipeline, merchant power and gas distribution industries. Khan holds bachelor's degrees in engineering and economics from the University of Pennsylvania.

Kevin Christopher Sagara. Kevin Christopher Sagara is a member of the Company's board of directors and is president of Sempra Renewables. In his current role, he oversees all aspects of Sempra Energy's renewable energy business segment, including development, acquisitions, finance, construction and operations. Sagara has served in various commercial and legal capacities at Sempra Energy for more than 20 years. Sagara has also held senior business and legal positions in the internet and wireless technology sectors and oversaw the sale of Intervu (NASDAQ: ITVU) to Akamai Technologies for over USD$2.8 billion. Sagara holds a bachelor's degree in geography-ecosystems from the University of California, Los Angeles and a law degree from Hastings College of Law, where he served as note editor of the Hastings Law Journal. He currently serves on the Board of Trustees of Hubbs-Seaworld Research Institute and as a committee member in the Governors committee on Energy Choice in Nevada.

Jeffrey Stephen Davidow. Jeffrey Stephen Davidow is a member of the Company's board of directors and has extensive diplomatic experience in both Latin America and Africa. Mr. Davidow served as U.S. Ambassador to Venezuela from 1993 to 1996 and as U.S. Assistant Secretary of State for the Western Hemisphere from 1996 to 1998. From 1998 to 2002, he served as U.S. Ambassador to Mexico. In 2003, Ambassador Davidow retired from the U.S. State Department with the rank of Career Ambassador, the highest position in the Foreign Service which, by law, can be held by no more than five individuals at one time. From 2003 to 2011, Ambassador Davidow served as President of the Institute of the Americas in San Diego. He currently serves as Senior Advisor for the Cohen Group, an international business consultancy based in Washington, D.C. Ambassador Davidow has published articles in Foreign Policy and Foreign Affairs and authored two books, one on international negotiations and the other, "The U.S. and Mexico: The Bear and the Porcupine." In addition to speaking frequently on hemispheric policy and on Mexican developments for organizations such as the North American Forum, the Trilateral Commission, the Woodrow Wilson Center, the Pacific Council, the Chinese Academy of Social Sciences and the InterAmerican Development Bank, Ambassador Davidow served as an adviser to President Obama for the 2009 Summit of the Americas. He received a Bachelor of Arts from the University of Massachusetts and a Master of Arts from the University of Minnesota.

Aarón Dychter Poltolarek. Dr. Dychter is a member of the Company's board of directors and the President and Founder of ADHOC Consultores Asociados, S.C., providing consulting services in infrastructure, transportation and energy investment projects. From December 1994 to December 2006, Dr. Dychter was Undersecretary of Transportation in the Mexican Ministry of Communications and Transportation. In that capacity, he led privatization processes for railways and airports in Mexico, as well as the creation of the first suburban train system for Mexico City. Previously, he held various positions at the Mexican Ministry of Finance and Public Credit, the Mexican Ministry of Programming and Budget and the Mexican Energy Ministry. He served as Chairman of the Mexican National Steering Committee for the Normalization of Ground Transportation (*Comité Consultivo Nacional de Normalización del Transporte Terrestre*), member of the board of directors and Deputy Chairman of the Nominating and Compensation Committee of Grupo Aeroportuario del Sureste, member of the board of directors of Grupo Aeroportuario del Centro Norte, Grupo Aeroportuario del Sureste, Grupo Aeroportuario Centro Norte, Grupo Aeroportuario del Pacífico, Grupo Aeroportuario de la Ciudad de México. He currently serves as an advisor to the management of the project for the development of the new Mexico City airport and is a member of the board of directors of Grupo OCUPA and Traxion. Dr. Dychter is a graduate of Universidad de las Américas in Mexico and holds a Master's Degree and a Ph.D. in Economics from George Washington University.

Alberto Mulás Alonso. Alberto Mulás was appointed member of the Company's board of director in April 2017. From January of 2014 to December of 2016, Mr. Mulás was the head of the Banco Itau-BBA office in Mexico. Previously, from 2003 to 2013, he was in charge of CREsCE Consultores, a consulting firm, specialized in corporate aspects, finance, strategy and corporate governance. During 13 years, Alberto Mulás was involved in the investment banking activities with Donaldson Lufkin & Jenrette (from 1999 to 2001) and with Lehman Brothers (from 1992 to 1996). From 2001 to 2003, he served in the Mexican Federal Government during the administration of President Vicente Fox, where he was in charge of the design, structuring and implementation of the national housing policy, the incorporation of the National Housing Commission (Comision Nacional de Vivienda) and Federal Mortgage Company (Sociedad Hipotecaria Federal). Alberto Mulás serves in the board of directors of publicly traded and family companies, as independent member. Alberto Mulás has advised multilateral entities such as the International Monetary Fund, the Interamerican Development Bank and the World Bank. Alberto Mulás holds a Chemical Engineer degree from Universidad Iberoamericana, where he graduated with honors and holds a master's degree (MBA) from the University of Pennsylvania (1987).

Jose Julian Sidaoui Dib. Mr. Sidaoui was appointed member of the Company's board of director in February 2017. Currently, he is an advisor and independent director of several financial institutions in the country and abroad. Previously, Mr. Sidaoui worked at the World Bank and Banco de Mexico, an institution he joined in 1979. There, he held various positions in the Economic and Operations area of Central Banking, where he was General Manager for more than 10 years. In December 1994, he was appointed Undersecretary of Finance and Public Credit. In 1997, he returned to the Banco de México to serve as Deputy Governor for two consecutive terms until 2012. Dr. Sidaoui has published several articles on structural change, exports, financial markets, public finances, monetary policy and corporate governance, and best practices in Central Banking. He has participated in various working groups of the International Bank for Payments and has been professor of Economics. He holds a PhD in Economics from George Washington University, a master's degree from the University of Pennsylvania and a degree in economics from the University of the Americas, Puebla.

Board of Directors, composition by sex: 91% male and 9% female.

Functions of the Board of Directors

The Board of Directors is the Company's legal representative and is authorized to take any action, as a collegiate body, in connection with the Company's operations not expressly reserved to its shareholders.

The Board of Directors has the power, among other matters to:

- Approve the Company's general strategy;
- Authorize, with the prior opinion of the audit and corporate practices committees: (1) any transaction with related parties, subject to very limited exceptions, (2) the appointment and removal of the Chief Executive Officer and other relevant senior managers, as well as to determine their functions and remuneration; (3) the Company's internal control and internal audit guidelines and those of its subsidiaries; (4) the Company's financial statements and those of its subsidiaries, (5) unusual or non-recurring transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of the Company's consolidated assets or (b) the granting of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of the Company's consolidated assets, and (6) the appointment of external auditors;
- Call shareholders' meetings and acting on their resolutions;
- Create special committees and granting them powers and authority, with the exception of those that, by law, or under the Company's bylaws are expressly reserved to the shareholders or the Company's Board of Directors;
- Submit the Chief Executive Officer's annual report to the general shareholders' meeting (which includes the Company's audited annual financial statements) and a report about the accounting policies and criteria used for the preparation of the Company's financial statements;
- Issue an opinion on the price of Company share placements by means of Global Offerings;
- Approve the policies related to disclosure of information;
- Determine the measures to be adopted in the event that irregularities are detected; and
- Exercise the Company's general powers in order to comply with its corporate purpose.

The meetings of the Board of Directors will be validly convened and held if a majority of its members are present; and its resolutions will be valid if approved by a majority of the members present, unless the Company's bylaws require a higher number of votes. The Chairman of the Board of Directors has a tie-breaking vote. Notwithstanding the above, at any time the shareholders may override a decision made by the Board.

Meetings of the Board of Directors may be called by (1) 25% of the board members, (2) the Chairman of the Board of Directors, (3) the Chairman of the Audit Committee or the Corporate Practices Committee, or (4) the Secretary to the Board of Directors.

The Securities Market Law imposes a duty of diligence and loyalty on the directors. See "Securities Market Law".

The members of the board and, if applicable, the Secretary to the Board of Directors during meetings must abstain from participating and voting on matters in which they might have a conflict of interest with the Company, without this affecting the necessary quorum for that particular meeting.

The members of the Board of Directors and the Secretary to the Board of Directors, would breach their duty of loyalty and be liable for damages to the Company and, if applicable, its subsidiaries if they have a conflict of interest and they vote or make a decision with respect to the Company's or its subsidiary's assets or if they fail to disclose any conflict of interest they may have unless confidentiality duties prevent them from disclosing such conflict.

Committees of the Board of Directors

The Board of Directors has established an audit committee and a corporate practices committee to provide particular focus on the oversight of important aspects of the Company's transactions.

Audit Committee

The Securities Market Law requires issuers to have an audit committee, which must be comprised of at least three independent members appointed by the Board of Directors.

The current audit committee members are Aaron Dychter as President, Jose Julian Sidaoui and Alberto Mulás, who were appointed by an ordinary general meeting of Company shareholders on April 28, 2017. The Company considers that all members of its audit committee are independent and are experts in the terms of the Securities Market Law.

The audit committee has the power, among other matters to:

- Submit recommendations to the Board of Directors with respect to the appointment or removal of external auditors;
- Supervise the external auditors' work and to analyze their reports;
- Analyze and supervise the preparation of the Company's financial statements;
- Submit to the Board of Directors a report about the Company's internal controls and their suitability;
- Request information from the relevant officers of the company when it deems it necessary;
- Assist the Board of Directors in the preparation of a report on the operations and activities in which the Board of Directors has participated, in accordance with the Securities Market Law;
- Report any irregularities it may detect to the Board of Directors;
- Receive and analyze proposals and observations made by shareholders, advisors, relevant senior managers, external auditors or third parties, and adopt the necessary measures based on these recommendations or observations;
- Call shareholders' meetings;
- Ensure that transactions with related parties comply with applicable laws;
- Oversee the implementation by the Chief Executive Officer of resolutions taken by the shareholders' meetings or the Board of Directors in accordance with the instructions issued by each of these bodies; and
- Provide an annual report of its activities to the Board of Directors.

The chairman of the audit committee has the responsibility of preparing an annual report about the activities of the committee for submission to the Board of Directors. This report must include at least: (1) the status of the Company's internal control and internal audit systems, and where relevant, any deviations and deficiencies they may present, as well as aspects that should be improved, considering the external auditors' and independent experts' reports; (2) the results of any preventive and corrective measures taken based on results of investigations of non-compliance with operating or financial policies, (3) the evaluation of the external auditors, (4) the main results from the review of the Company's financial statements and those of its subsidiaries, (5) the description and effects of changes to accounting policies, (6) the measures adopted as a result of observations made by shareholders, directors, relevant members of the senior management and third parties related to accounting, internal controls, and internal or external audits, (7) follow-up of the implementation of resolutions taken at shareholders' and the Board of Directors' meetings; (8) observations with respect to the performance of relevant directors and officers; and (9) the remuneration paid to relevant directors and senior managers.

Corporate Practices Committee

The current members of the Corporate Practices Committee are Jeffrey Davidow as President, Jose Julián Sidaoui, Alberto Mulás and Joseph Allan Householder, who were appointed by the ordinary general meeting of shareholders on April 28, 2017. In accordance with the provisions of the Securities Market Law, the majority of the members of the Corporate Practices Committee are independent because the Company's indirect controlling shareholder owns at least 50% of the Company's equity. Jeffrey Davidow, Jose Julián Sidaoui and Alberto Mulás are the independent members. The Company believes that all members of its Corporate Practices Committee are independent and at least one of its members is a financial expert in terms of the Securities Market Law.

The Corporate Practices Committee has powers including:

- To assist the Board of Directors in the approval of the policies and guidelines for the execution of transactions with related parties and in reviewing that those transactions between related parties that are in turn subject to the cross-share regulation, in terms of the article 83 of the Hydrocarbons Law, fully comply with the provisions of said article and the applicable policies of the Company;
- To verify that those transactions between related parties that are in turn subject to the cross-share regulation, in terms of Article 83 of the Hydrocarbons Law, fully comply with the provisions of said article and the applicable policies of the Company;
- To provide opinions and make recommendations to the Board of Directors;
- To provide assistance to the Board of Directors in the preparation of reports on the main accounting and information guidelines used in the preparation of financial information;
- To advise the Board of Directors on the appointment of the Chief Executive Officer and other relevant senior managers, as well as to determine their responsibilities and remuneration;
- To advise the Board of Directors on the preparation of reports for the annual shareholders' meeting;
- To request and obtain opinions and recommendations from independent experts;
- To provide opinions on transactions with related parties; and
- To call shareholders' meetings.

The Chairman of the Corporate Practices Committee is responsible for preparing an annual report to the Board of Directors with respect to: (1) observations regarding the performance of relevant senior managers; (2) transactions with related parties, describing the main characteristics of significant transactions, (3) the remuneration paid to relevant advisors and members of senior management; and (4) granting permission to advisors or members of the senior management to take advantage of business opportunities.

Senior Officers

The following table sets forth certain information regarding the Company's senior officers as of December 31, 2017:

Name	Age	Sex	Title
Carlos Ruiz Sacristán	68	Male	Chairman of the Board and Chief Executive Officer
Tania Ortiz Mena López Negrete	47	Female	Chief Development Officer
Manuela Molina Peralta	45	Female	Chief Financial Officer
Arturo Infanzón Favela	46	Male	Chief M&A and Planning Officer
Juan Rodríguez Castañeda	53	Male	Chief Corporate Affairs and Human Resources Officer
Jesús Córdoba Domínguez	57	Male	Chief Engineering and Construction Officer
Carlos Barajas Sandoval	50	Male	Chief Operating Officer
René Buentello Carbonell	49	Male	Chief Legal Counsel Officer
Gerardo De Santiago Tona	46	Male	Senior Vice President of Strategic Planning
Roberto Rubio Macías	45	Male	Vice President, Controller
Jorge Molina Casellas	49	Male	Vice President of Commercial
Juancho Eeckhout	41	Male	Vice President of Development
Sue Bradham	48	Female	Director of Investor Relations

The following is a summary of the experience and principal business interests of current the Company's officers:

Carlos Ruiz Sacristán. See "– Board of Directors."

Tania Ortiz Mena López Negrete. Tania Ortiz Mena has been the Company's Chief Development Officer since July 2014. She served as the Company's Vice-President for Business Development and External Affairs from 2009 to 2012, Director of Governmental and Regulatory Affairs from 2002 to 2009 and as the Company's General Manager from 2000 to 2002. Before joining Sempra Energy in 2000, Ms. Ortiz Mena worked at PMI Comercio Internacional, a subsidiary of PEMEX, in the role of Assistant Commercial Manager of Refined Products from 1994 to 1999. From 2013 to 2014, she was Vice President of the Mexican Natural Gas Association (*Asociación Mexicana de Gas Natural*) and Chairman from 2015 to 2016, and member of the World Energy Council, Mexico Chapter from 2015 to 2016. Currently, Ms. Mena is the Vice President of the World Energy Council and member of the Advisory Board of the Energy Regulatory Commission. Ms. Mena holds a Bachelor's Degree in International Relations from the Universidad Iberoamericana and a Master's Degree in International Relations from Boston University.

Manuela Molina Peralta. Manuela ("Nelly") Molina is the Company's Chief Financial Officer since July 2017. Previously, she served as Vice President of Finance from 2010 to 2017. Before joining the Company, she served as Vice President of Finance at El Paso Corporation in Mexico from 2001 to 2010. Before joining El Paso Corporation (Mexico), Ms. Molina was General Manager of Kinder Morgan (Mexico) and, prior to that, worked for the first distributor of natural gas in Hermosillo, Sonora, from 1997 to 2001. In 2015, Ms. Molina was national president of the Mexican Institute of Finance Executives (*Instituto Mexicano de Ejecutivos de Finanzas*), and she is currently chairman of the Issuers Committee of the Mexican Stock Exchange and independent advisor of the New Mexico City Airport Project. She is also a board member and founder of NatGas Querétaro. Ms. Molina holds a Bachelor's Degree in Accounting from the Universidad de Sonora and a Master's Degree in Finance from the Instituto Tecnológico de Estudios Superiores de Monterrey.

Arturo Infanzón Favela. Mr. Infanzón has been the Company's Chief M&A and Planning Officer since July 2017. Previously, Mr. Infanzón served as the Company's Chief Financial Officer and Executive Vice President Chief Operating and Financial Officer, as well as Sempra International's Vice President for México and Director of Operations. He also served as Controller of Operations in Mexico and General Manager of Ecogas. Prior to joining Sempra Energy in 1997, Mr. Infanzón worked at PricewaterhouseCoopers International and the First National Bank. Mr. Infanzón currently serves on the Board of Directors of Chilquinta Energía, S.A. and Luz del Sur, S.A.A. He also serves on the Energy Advisory Board of the IPADE Business School. Mr. Infanzón holds a Bachelor's Degree in Accounting from Universidad Autónoma de Baja California in Mexico and a Master's Degree in Finance from San Diego State University.

Juan Rodríguez Castañeda. Since May 2016, Juan Rodríguez Castañeda is IEnova´s Chief Corporate Affairs and Human Resources Officer. Previously he served as Vice President of Corporate Affairs and Human Resources from 2014 to 2016. Before joining IEnova, he spent 10 years in the aviation industry, where he served as Chief Corporate & Industry Affairs Officer from 2013 to 2014 and Chief Human Resources Officer from 2010 to 2013 at Aeroméxico. Previously he served as Chief Executive Officer at SEAT (currently Aeroméxico Servicios) in 2010 and Chief Executive Officer at Aeromexpress (currently Aeroméxico Cargo) from 2004 to 2010. Juan Rodríguez Castañeda also served in the Mexican Federal Government from 1988 to 2004, where he held several positions within the Secretary of Finance and Public Credit, the Secretary of Communication and Transportation, PEMEX, as well as the Office of the President of Mexico. His most relevant positions were Chief of Staff of three Secretaries and General Coordinator of Planning at the Ministry of Communication and Transportation. He holds a Bachelor´s Degree in Economics from the Instituto Tecnológico Autónomo de México (ITAM).

Jesús Córdoba Domínguez. Mr. Córdoba has been the Company's Chief Engineering & Construction Officer since May 2016. Previously, he served as the Company's Vice President of Engineering & Construction from 2012 to 2016 and Director of Operations and Transportation from 2010 to 2012. Mr. Córdoba worked for El Paso Corporation in Mexico as Project Manager for Subsidiaries from 2001 to 2010 and as Superintendent of Contracts with TransCanada Pipelines in Mexico from 1998 to 2001. Mr. Córdoba has 37 years of experience in infrastructure project execution, including 18 years of experience in project management in the construction industry in Mexico. Mr. Córdoba has a Bachelor's Degree in Civil Engineering from the Universidad La Salle.

Carlos Barajas Sandoval. Carlos Barajas has been the Company's Chief Operating Officer since May 2016. Previously, from February 2014, Mr. Barajas was the Company's Vice-President of Operations and before that, from June 2013, Mr. Barajas was the Company's Vice-President for Gas. Before joining the Company, he was the General Director of the LNG Terminal in Altamira from 2007 to 2013; Business Development Director at Shell México from 2005 to 2007; Commercial Director at InterGen México from 2000 to 2005 and Commercial Manager at Energía Mayakan from 1997 to 2000. Carlos Barajas holds a bachelor's degree in Civil Engineering from the Instituto Politécnico Nacional in 1992, a master's degree in Engineering from the University of British Columbia in 2000, and a master's degree in Economics from Universidad Anáhuac in 2007.

René Buentello Carbonell. Mr. Buentello has been the Company's Chief Legal Counsel since May 2016, and Deputy Secretary since 2010. From 2010 to 2016, Rene Buentello served as Vice President and General Counsel, previously, Mr. Buentello served as Business Development Director at El Paso Corporation in Mexico from 2008 to 2010. Mr. Buentello began his career in corporate law at the industrial division of Grupo Carso, where he served as Legal Manager for Grupo Nacobre and Grupo Aluminio and Deputy Secretary and Secretary, respectively, to the Board of Directors of those companies from 1990 to 2002. He then joined PEMEX, where he served in various positions in the transportation and logistical departments, developing infrastructure projects and promoting public-private partnerships in the areas permitted by the legal framework from 2002 to 2008. Mr. Buentello holds a law degree from Universidad Panamericana with specialized studies at the same university in Economic and Corporate Law, Commercial Law and International Finance Law.

Gerardo de Santiago Tona. Gerardo De Santiago has been the Company's Senior Vice-President of Strategic Planninc since May 2016. Before that, Gerardo De Santiago served as the Company's Executive Vice-President of Operations and Construction, since May 2010. Mr. De Santiago was previously Manager of Sempra Pipelines & Storage México from 2008 to 2010, which became part of Sempra International in January, 2012. He was the Chief Executive Officer of ECOGAS from 2001 to 2008. Before joining Sempra Energy in 2001, Mr. De Santiago worked for Sistema Municipal de Aguas de Saltillo from 1997 to 2000 and for the CFE from 1992 to 1997. Gerardo De Santiago holds a Bachelor's Degree in Industrial Engineering from the Universidad Autónoma del Noreste in 1991 and a Master's Degree in Business Administration from the Universidad Autónoma de Nuevo León in 1996.

Roberto Rubio Macías. Mr. Rubio has been our Vice President Controller since May 2016. Before that, Mr. Rubio was our General Controller since 2012. From 2001 to 2012, he was Foreign Investments Accounting Manager at Sempra Energy in San Diego, Internal Auditing Manager at Luz del Sur (a subsidiary of Sempra Energy in Lima, Peru), Financial Reporting Manager at IEnova in Tijuana, Controller of Termoeléctrica de Mexicali and Accounting Manager and Controller at Ecogas in Chihuahua. Prior to joining Sempra Energy in 2001, Mr. Rubio served as Administrative Manager at Denimtex from 1998 to 2001, Regional Administrative Supervisor at British American Tobacco from 1996 to 1998, and Senior Auditor at Galaz, Yamazaki, Ruiz Urquiza (Deloitte) in Chihuahua from 1993 to 1996. He has been registered as a certified public accountant with the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*) since 2001. Mr. Rubio holds a Bachelor's Degree in Accounting from Universidad Autónoma de Chihuahua, and a Master's Degree in Business Administration from the Universidad Autonoma de Chihuahua. Mr. Rubio also holds a Master's Degree from Instituto Tecnológico y de Estudios Superiores de Monterrey, in Innovation for Business Development in 2017.

Jorge Molina Casellas. Jorge Molina has been the Company's Vice President of Commercial since May 2016. From 2012 to 2016, Mr. Molina acted as Business Director and has occupied managing positions in the commercial, finance, projects, regulation and operations areas and in various business units since joining the Company in 1997. Prior to joining us, Mr. Molina served as a financial advisor at Bancomer from 1993 to 1997. Mr. Molina holds a Bachelor's Degree in Business Administration and a Masters Degree in Corporate Finance from Centro de Enseñanza Técnica y Superior Campus Mexicali.

Juancho Eekhout Smith. Juancho Eekhout has been the Company's Vice President of Development since August of 2016. Previously, Mr. Eekhout held various roles in the family of companies of Sempra Energy. From 2014 to 2016, Mr. Eekhout acted as Senior Director of Commercial Development at Sempra LNG. From 2010 to 2013, Mr. Eekhout worked at San Diego Gas & Electric as Organization Director and afterwards as Strategic Planning Director. Juancho Eekhout started his career at Sempra in 2008, in the corporate department, as M&A Director. Before, Mr. Eekhout worked for BP for eight years in the oil trading, refinery and fuel commercialization segments. Mr. Eekhout holds a Bachelor's Degree in Economics from Universidad Católica Andres Bello and a Masters in Public Policy From University of Chicago.

Sue Bradham. Sue Bradham has been the Company's Director of Investor Relations since June 2016. From August 2002 to June 2016, she served in various commercial and strategic roles across Sempra International, Sempra LNG, and Sempra U.S. Gas & Power. Before joining Sempra Energy in 2002, Ms. Bradham worked as a management consultant at Booz Allen & Hamilton and as an engineer in project development and operations roles at ExxonMobil. Ms. Bradham holds a Bachelor's Degree in Mechanical Engineering from Stevens Institute of Technology and a Master's Degree in Business Administration from the Wharton School at the University of Pennsylvania. She is a registered Professional Engineer in the state of Texas.

Senior officers, composition by sex: 77% male and 23% female.

Activities of Senior Officers

The role of the Chief Executive Officer and the other members of senior management is to focus their activities on increasing the value of the Company. The Chief Executive Officer and senior management may be held liable for damages to the Company, or to its subsidiaries if applicable, if : (1) they knowingly favor a certain shareholder or group of shareholders, (2) they approve transactions between the Company or its subsidiaries, with related persons without complying with the applicable legal disclosure requirements, (3) they take personal advantage from the use or enjoyment of the Company's or its subsidiaries' assets against company policy (or authorize third parties to do so); (4) they make inappropriate use of the Company's, or its subsidiaries,' non-public information, or (5) they knowingly disclose or reveal false or misleading information.

The Chief Executive Officer and the members of the senior management are required, under the Securities Market Law, to act for the Company's benefit and not that of a particular shareholder or group of shareholders. The main functions of the Chief Executive Officer include: (1) implementing the resolutions approved during shareholders' meetings and by the Board of Directors, (2) submitting the main strategies of the business to the Board of Directors for approval, (3) submitting proposals for internal control systems to the audit and corporate practices committees, (4) disclosing relevant information to the public, and (5) maintaining adequate accounting and internal control systems and mechanisms. The Chief Executive Officer and the members of the senior management are also subject to the same type of obligations as the directors.

As of the date of this report, none of the directors or executive officers of the Company is a holder of more than 1% of the Company's shares.

Business Address of the Company's Directors and Senior Officers

The business address for all members of the Company's board of directors and senior officers is Torre New York Life, Paseo de la Reforma No. 342, Piso 24, Colonia Juárez, 06600 Ciudad de México, Attention: Infraestructura Energética Nova, S.A.B. de C.V.

Family Relationships

There are no family relationships among the Company's directors and senior officers, or among the Company's directors and senior officers and the directors and senior officers of the Company's indirect controlling shareholder.

Labor Inclusion Policy

The Company does not have a labor inclusion policy; however the talent's attraction policy establishes that IEnova is governed by certain integrity standards, among which IEnova does not discriminate for any reason: sex, race, age, religious creed, political doctrine or social or physical condition or sexual orientation. This is how the Company recognizes the equality and dignity of people, respecting their freedom and privacy at all times. Compliance with the above is monitored by the Corporate Ethics Committee, headed by the Executive Vice President and General Counsel, and the Development, Equity and Diversity Committee chaired by the Executive Vice President of Corporate Affairs and Human Capital. The Company has a toll-free confidential telephone line and a Corporate Ethics Officer specialized in dealing with any type of situation that might occur in violation of established integrity standards.

Likewise, IEnova subscribes to the United Nations Global Compact in the field of human rights; this UN Global Compact asks companies to adopt, support and enact, within their sphere of influence, a set of fundamental values in the areas of human rights, labor standards, the environment and anti-corruption.

Legal Proceedings Involving the Company's Directors or Senior Officers

As of the date of this report, there are no judicial or administrative proceedings pending against any of the Company's directors and/or senior officers.

Compensation of the Company's Directors and Senior Officers

The aggregate amount of compensation paid by the Company to the members of the senior management for the years ended December 31, 2017, 2016 and 2015, was USD$10.3 million, USD$7.1 million and USD$8.9 million, respectively. The Company continuously reviews the salary, bonus and other compensation plans to offer competitive compensation arrangements for the management.

The Company's director compensation plan covers only independent, non-employee directors. Each of the Company's independent directors receives (i) an annual fee of USD$21,100, payable in four equal quarterly payments and (ii) an annual fee of USD$33,900 for their performance as board and committee members, payable in four equal quarterly payments. Additionally, the Company's independent directors receive compensation that is tied to the performance of the Company's stock. These values will be convertible once a year, pursuant to the terms determined by the special delegates appointed for such purpose, and subject to such director continuing to exercise his or her duties as of the conversion date. Nonindependent directors do not receive any compensation for their services as directors or members of the audit or corporate governance committees.

The terms of this phantom stock compensation are determined by a committee of the Company's board of directors composed entirely of non-independent directors.

Also, as of December 31, 2017, 2016 and 2015, the Company's accrued amount for pension, retirement or similar plans that correspond to members of the board, relevant directors and other related parties was USD1.7 million, USD$1.3 million and USD$0.63 million, respectively.

Executive Restricted Grants

In addition to salary, members of the Company's senior management team annually receive time and performance based restricted grants. Performance-based grants are based upon the performance of the Company's stock and other performance metrics. Long-term executive restricted grants is determined according to Sempra and Ienova stock price performance, and others. It will be paid in cash and / or shares of Sempra, as the case may be, after three years of having been granted and subject to the executive remaining in service on such date. The restricted grants based on Ienova's shares, will be paid in cash.

Seniority Compensation Plan

Pursuant to Mexican Federal Labor Law, the Company grants seniority fees to employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of salary for each year of employment (based on the last salary of the employee, but not higher than twice the minimum legal wage). This fee is paid to all employees with 15 years or more of service and when the Company unilaterally severs employment.

Shareholding (April, 2018)

Shareholders with more than 10% of issuer's equity: Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex; 27.8%

Shareholders with significant influence: none

Shareholders with control: Semco Holdco, S. de R.L. de C.V., 66.4%

DESCRIPTION OF THE COMPANY'S CAPITAL STOCK AND BYLAWS

d) The Company's Bylaws and Other Agreements

Set forth below is a description of the Company's capital stock and a brief summary of certain significant provisions of the Company's bylaws and Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to the Company's bylaws and the relevant provisions of Mexican law.

General

The Company was incorporated on April 2, 1996 under the name "Enova de México, S.A. de C.V." and subsequently, on April 25, 2008, became a limited liability company (*sociedad de responsabilidad limitada*) organized pursuant to the Mexican Corporations Law and changed the Company's name to "Sempra Energy México, S. de R.L. de C.V." On December 3, 2008 the Company changed its name to "Sempra México, S. de R.L. de C.V." On February 15, 2013, the Company transformed into a variable capital stock corporation (*sociedad anónima de capital variable*), which transformation became effective on February 20, 2013. On March 1, 2013, the Company changed its name to "Infraestructura Energética Nova, S.A. de C.V." Through a unanimous resolution on March 6, 2013, the Company's shareholders approved amending and restating the bylaws to conform them to the provisions of the Mexican Securities Market Law applicable to public companies, to adopt the form of a variable capital publicly traded corporation (*sociedad anónima bursátil de capital variable*) and to change the name to "Infraestructura Energética Nova, S.A.B. de C.V." On October 7, 2016, the Twenty-eighth Clause of the articles of incorporation was amended in order to suppress the requirement to publish calls within the official period in the company's domicile or through any widely read newspaper in said place, and to include instead the publication through the Electronic system of Publications for Commercial Corporations of the Economics Ministry. A copy of the Company's amended and restated bylaws has been filed with the Mexican National Banking and Securities Commission and the Mexican Stock Exchange, and is available for review at www.bmv.com.mx.

The duration of the Company's corporate existence is indefinite. The Company is a holding company and conduct all of its operations through its subsidiaries.

Capital stock

Because the Company is a variable capital stock corporation, the Company's capital stock must have a fixed portion and may have a variable portion. As of the date of this report the Company's issued and outstanding capital stock consists of 1,534,023,812 shares of a single series of common stock, no par value, of which 5,000 are Class I shares representing the Company's fixed capital and 1,534,018,812 are Class II shares representing the Company's variable capital. In addition, the Company has 330,000,000 Class II shares held in treasury, which will be available for sale in connection with a projected public offering. The Company's shares are not subject to any ownership restrictions and, accordingly, may be issued to and held by both Mexican and non-Mexican investors.

Changes in the Company's Capital Stock in the Past Three Years

In the last three years, during corporate years 2017, 2016 and 2015, the Company's equity capital was increased in an extraordinary general shareholders' meeting held on October 7, 2016, which approved the increase of the Company's capital equity in MXN$3,800 million and the issuance of up to 380 million ordinary registered Class II shares which were offered and fully placed in the Company's subsequent public equity offering.

Voting Rights and Shareholders' Meetings

All of the Company's shares have full voting rights. Each share entitles the holder to one vote at any meeting of the Company's shareholders.

Pursuant to the Company's bylaws, the Company may hold ordinary or extraordinary shareholders' meetings. Ordinary shareholders' meetings are those which are called to discuss any matter that is not reserved for discussion at an extraordinary shareholders' meeting. The Company must hold an ordinary shareholders' meeting at least once each year, within the first four months following the end of the Company's fiscal year, to discuss, among other things, the approval of the financial statements, the report prepared by the board of directors on the financial statements, the appointment of members of the board of directors and the determination of the compensations of the members of board of directors.

Extraordinary shareholders' meetings are those which are called to discuss, among others, the following matters:

i) an extension of the duration of the Company's corporate existence;

ii) the Company's dissolution;

iii) an increase or decrease in the Company's capital stock;

iv) a change in the Company's corporate purpose or nationality;

v) any transformation, merger or spin-off involving us;

vi) any stock redemption or issuance of preferred stock;

vii) any redemption of the Company's shares using retained earnings;

viii) the issuance of bonds, debentures, obligations, debt or equity instruments, or other similar instruments;

ix) the cancellation of the registration of the Company's shares with the Mexican National Securities Registry or the delisting of the Company's shares from any stock exchange;

x) amendments to the Company's bylaws; and

xi) any other matter for which Mexican law or the Company's bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held in the same city as the Company's corporate offices, which are in Tijuana, Baja California. Shareholders' meetings may be called by the chairman of the Company's board of directors, the chairman of the audit committee, the chairman of the corporate governance committee, the secretary or a Mexican court of competent jurisdiction. In addition, any holder of at least 10% of the Company's outstanding capital stock has the right to request that the Company's board of directors, the audit committee or the corporate governance committee call a shareholders' meeting to discuss the matters indicated in the relevant request.

Notices of shareholders' meetings must be published in the Electronic System of Publications of Mercantile companies of the Ministry of Economy, at least 15 calendar days prior to the date of the meeting. Each notice must set forth the place, time and agenda for the meeting and must be signed by the person convening the meeting. From the date on which a notice is published until the date of the meeting, all relevant information regarding such meeting must be made available to the shareholders.

To be admitted to a shareholders' meeting, shareholders must submit evidence of the deposit of their stock certificates with a financial institution, brokerage firm or securities depositary, at least one day prior to the relevant meeting. The Company will then issue certificates that can be used to gain admission to the meeting. Shareholders may designate one or more authorized representatives with general or special powers and authority to represent them at a meeting, or appoint a representative using the proxy forms that the Company will make available during the 15-day period prior to each meeting.

Quorums

Ordinary meetings are legally convened on a first notice when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at ordinary meetings of shareholders pursuant to a first notice are valid when approved by the holders of the majority of the voting shares present at such meeting. At meetings called by a second notice, any number of shares represented at an ordinary meeting of shareholders constitutes a quorum and resolutions are valid when approved by the holders of a majority of the shares represented at the meeting.

Extraordinary shareholders' meetings and special shareholders' meetings are legally convened on a first notice when at least 75% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a first notice are valid when adopted by the holders of over 50% of the Company's outstanding voting shares. At extraordinary shareholders' meetings called by a second or subsequent notice, meetings are legally convened when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders called pursuant to a second or subsequent notice are valid when adopted by the holders of shares representing over 50% of the Company's outstanding voting shares

Approval from the holders of shares representing 95% of the Company's capital stock, whether voting or non-voting, is required to request to the Mexican Banking and Securities Commission that the registration of the Company's shares on the Mexican Securities Registry be canceled in accordance with the Mexican Securities Market Law and other applicable laws.

Dividends and Distributions

Typically, at an annual ordinary shareholders' meeting, the board of directors submits the Company's financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of the Company's net profits for the preceding fiscal year. By statute, prior to any distribution of dividends, the Company is required to allocate 5% of the Company's net profits to a legal reserve fund until the legal reserve fund equals 20% of the Company's paid-in capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including amounts allocated to a reserve for the repurchase of shares. The remaining balance, if any, may be distributed as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been restored.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. If and when the Company declares dividends, the Company will distribute through Indeval cash dividends for shares held through Indeval. Any cash dividends on shares evidenced by physical certificates will be paid upon surrendering to the Company the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

Changes to The Company's Capital Stock

The fixed portion of the Company's capital stock may be increased or decreased by a resolution adopted by the Company's shareholders in an extraordinary shareholders' meeting, provided that the Company's bylaws are concurrently amended to reflect the increase or decrease in capital stock. The variable portion of the Company's capital stock may be increased or decreased by the Company's shareholders in an ordinary shareholders' meeting without the amendment of the Company's bylaws.

Increases or decreases in the fixed or variable portion of the Company's capital stock must be recorded in the Company's registry of capital variations, which the Company is required to maintain under the Mexican Corporations Law. The minutes of any shareholders' meeting where the Company's fixed capital is increased or decreased must be notarized and registered before the corresponding Public Registry of Commerce. New Shares cannot be issued unless the issued and outstanding Shares at the time of the issuance have been paid in full, except in certain limited circumstances.

Share Repurchases

The Company may choose to acquire the Company's own shares through the Mexican Stock Exchange on the following terms and conditions:

- The acquisition must be carried out through the Mexican Stock Exchange;
- The acquisition must be carried out at market price, unless a public tender offer or auction has been authorized by the Mexican Banking and Securities Commission;
- The acquisition must be carried out against the Company's stockholders' equity without adopting a reduction in capital stock, or against the Company's capital stock, and the shares so acquired will be held as treasury shares. No shareholder consent is required for such purchases;
- The amount of shares and the price paid in all share repurchases must be made public;
- The maximum amount to be spent in a fiscal year for the repurchase of shares must be determined by the Company's shareholders at their annual ordinary meeting;
- The Company may not be delinquent on payments due on any outstanding debt issued by the Company that is registered with the Mexican Securities Registry;
- Any acquisition of shares must be in conformity with the requirements of Article 54 of the Mexican Securities Market Law; and
- The Company must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which the Company's shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which the Company owns such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting.

Ownership of Capital Stock by Subsidiaries

The Company's subsidiaries may not, directly or indirectly, invest in the Company's shares, except for shares acquired as part of an employee stock option plan and in conformity with the Mexican Securities Market Law.

Redemption

In accordance with the Company's bylaws, shares representing the Company's capital stock are subject to redemption in connection with either (1) a reduction of capital stock, or (2) a redemption with retained earnings, which in either case must be approved by the Company's shareholders at an extraordinary meeting. In connection with a capital reduction, the redemption of shares must be made pro rata among the shareholders. In the case of a redemption with retained earnings, such redemption shall be conducted (a) by means of a tender offer conducted on the Mexican Stock Exchange at prevailing market prices, (b) pro rata among the shareholders, or (c) if the redemption is at a price different from the prevailing market price, shares to be redeemed shall be selected by lot.

Dissolution and Liquidation

In the event of the Company's dissolution, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up the Company's business and affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any liquidation proceeds.

Registration and Transfer

The Company's shares have been registered with the Mexican Securities Registry as required under the Mexican Securities Market Law and the regulations issued by the Mexican Banking and Securities Commission. Shares are evidenced by certificates issued in registered form, which are to be deposited with Indeval at all times. The Company's shareholders may only hold their shares in book-entry form through participants that have accounts with Indeval. Indeval is the holder of record in respect of all shares. Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and other entities authorized by the Mexican Banking and Securities Commission to be participants at Indeval. In accordance with Mexican law, only persons listed in the Company's stock registry and holders of certificates issued by Indeval or by Indeval participants will be recognized as the Company's shareholders. Such shareholders may exercise rights in respect of those shares at meetings of shareholders or otherwise. Transfers of shares must be registered through book entries on the records of Indeval.

Preemptive Rights

Under Mexican law and the Company's bylaws, the Company's shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if the Company issues additional shares of capital stock, the Company's shareholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Shareholders must exercise their preemptive rights within the time periods set forth by the Company's shareholders at the meeting approving the relevant issuance of additional shares. This period may not be less than 15 days following the publication of notice of the issuance in the Mexican Official Gazette and in a newspaper of general circulation in Mexico City.

Under Mexican law, shareholders cannot waive their preemptive rights in advance, and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share certificate. Preemptive rights will not apply to (1) shares issued by the Company in connection with mergers, (2) shares issued in connection with the conversion of convertible securities, the issuance of which was approved by the Company's shareholders, (3) shares issued in connection with the capitalization of items included in the Company's statement of financial position, (4) the resale by the Company of shares held in the Company's treasury as a result of repurchases of shares conducted by the Company on the Mexican Stock Exchange, and (5) shares to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which permits the non-applicability of preemptive rights in connection with public offerings by existing public companies, if the issuance of those shares was approved at a general shareholders' meeting.

Certain Minority Protections

Pursuant to the Mexican Securities Market Law and the Mexican Corporations Law, the Company's bylaws include a number of minority shareholder protections. These minority protections include provisions that allow holders of at least 10% of the Company's outstanding shares entitled to vote (including voting in a limited or restricted manner):

a. to request that a shareholders' meeting be called;

b. to request that resolutions, with respect to any matter on which they were not sufficiently informed, be postponed; and

c. to appoint or revoke the appointment of one member of the Company's board of directors and one alternate member of the Company's board of directors.

The minority protections include provisions that also allow holders of at least 20% of the Company's outstanding share capital to oppose and file a petition for a court order to suspend any resolution adopted at a shareholders' meeting, provided that (1) the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, (2) the challenged resolution violates Mexican law or the Company's bylaws, (3) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution, and (4) the opposing shareholders deliver a bond to the court to secure payment of any damages that the Company may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder. However, these provisions have seldom been invoked in Mexico, and, as a result, it is uncertain how a competent court may enforce them.

The minority protections include provisions that also allow holders of at least 5% of the Company's outstanding shares to initiate an action for civil liabilities against some or all of the Company's directors in a shareholder derivative suit for the Company's benefit, for violations of their duty of care or their duty of loyalty, in an amount equal to the damages or losses caused to us. Such actions have a five-year statute of limitations.

Anti-Takeover Protections

The Company has included anti-takeover protections in the Company's bylaws. Generally, these provisions require board approval for acquisitions of the Company's shares at thresholds that are different than the statutory tender offer rules set forth in the Mexican Securities Market Law.

Definitions

For purposes of these anti-takeover provisions only, the following terms shall have the following meanings:

"Shares" means the Company's shares of stock, regardless of class or series, as well as any certificate, security or instrument whose underlying assets are the Company's shares and which confers a right to or is convertible into the Company's shares, including any financial derivative instrument.

"Control," "controlling" or "controlled by" means: a person's (i) direct or indirect ownership, individually or together with other related persons, of a majority of the voting shares of common stock of a corporation, or any certificates or other instruments representing such shares; (ii) power or ability to appoint a majority of the members of the board of directors or the administrator of an entity, investment fund, trust or similar vehicle, company, corporation or other economic or business venture, whether directly or indirectly through the exercise of the voting rights conferred by such person's shares or interests, or through any agreement to the effect that a third party's shares or interests shall be voted in the same manner as such person's shares or interests; or (iii) power to determine, directly or indirectly, the policies and/or decisions of the management or the course of the business of an entity, trust or similar vehicle, company, corporation or other economic or business venture.

"20% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 20% or more of the Company's voting shares.

"40% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 40% or more of the Company's voting shares.

"Related person" means any individual or entity, corporation, investment fund, trust or similar vehicle, company or other economic or business venture, or the spouse, companion or any relative by blood, marriage or adoption within four degrees, or any subsidiary or affiliate of any of the above, that (a) belongs to the same economic group as any person intending to acquire shares or is a subsidiary or an affiliate of such person, (b) is acting or has the power to act in concert with the person intending to acquire shares, or (c) has the power to influence the investment decisions of such person.

General

Subject to certain exceptions, the Company's bylaws provide that any person who, individually or together with other related persons, wishes to acquire the Company's shares or the beneficial ownership of the Company's shares, directly or indirectly, in one or more transactions, regardless of the time of each transaction or the percentage of shares maintained by such person individually or together with other related persons prior to the acquisition, that result in such person holding individually, or together with such other related persons, shares representing 10% or more of the Company's outstanding capital stock, must (1) obtain the prior written approval of the Company's board of directors before undertaking the transaction, and (2) where such acquisition would result in a 20% Interest, a 40% Interest or a change in the Company's control, fulfill additional requirements as set forth below.

The Company will not recognize the ownership of shares acquired without approval or in violation of the Company's anti-takeover provisions, nor will the Company record such shares in the Company's stock registry, even if the acquirer holds other shares of the Company's common stock. Furthermore, a person that is deemed to have acquired the Company's shares in violation of the Company's anti-takeover protections will not be able to vote such shares or exercise any corporate rights associated with them (other than dividend and other economic rights). In addition, a person that acquires shares in violation of the Company's bylaws is obligated to sell those shares through one or more transactions in the Mexican Stock Exchange within 90 days of the date on which such shares are acquired.

Board Approvals

A potential acquirer must obtain the prior approval of the Company's board before undertaking any of the transactions described above. To obtain such approval, the potential acquirer must submit to the Company's board a written authorization request that contains certain details about the transaction, the acquirer and the source of the funds. If the Company's board of directors does not approve the request in the manner and within the time periods provided in the Company's bylaws, the authorization request will be deemed to be denied.

Mandatory Tender Offers in Connection with Certain Acquisitions

If the Company's board of directors authorizes an acquisition of the Company's shares that results in the acquisition of a 20% interest but less than a 40% interest, regardless of such authorization the acquirer must make a cash tender offer for the greater of (1) the percentage of the Company's outstanding shares that it is expected to acquire, or (2) 10% of the Company's outstanding shares, provided that such acquisition would not result in a 40% interest or a change of control. In the event that the Company's board of directors authorizes an acquisition that results in a 40% interest or a change of control, regardless of such authorization the acquirer must make a cash tender offer for 100% of the Company's outstanding shares at a price which cannot be lower than any of the following: (i) the book value of the Company's shares as reported on the last quarterly income statement approved by the Company's board of directors; (ii) the highest closing price of the Company's shares on the Mexican Stock Exchange during any of the 365 days preceding the date of the board resolution approving the acquisition; or (iii) the highest price paid for any shares, at any time, by the acquirer. Furthermore, all shareholders must be paid the same price for shares tendered in connection with the offer. The mandatory tender offer provisions of the Company's bylaws generally are more stringent than similar provisions contained in the Mexican Securities Market Law. The Company believes the provisions of the Company's bylaws are more protective of minority shareholders than the current Mexican Securities Market Law.

Exceptions

Certain transactions are exempt from the anti-takeover provisions of the Company's bylaws, including, among others, direct or indirect acquisitions or transfers through inheritance, acquisitions or transfers by a person or persons controlling us, such as the Company's indirect controlling shareholder, Sempra Energy (including transfers resulting in a change of control of the person or persons controlling us), acquisitions or transfers by us, the Company's subsidiaries, the Company's affiliates or any trust created by the Company or any of the Company's subsidiaries, or acquisitions or transfers authorized by the Company's board of directors or at a meeting of the Company's shareholders.

Registration of Changes in The Company's Anti-Takeover Provisions

Any amendment to the Company's anti-takeover protections must be registered with the Public Registry of Commerce.

Cancellation of the Registration of The Company's Shares With the Mexican Securities Registry

In the event of cancellation of the registration of the Company's shares with the Mexican Securities Registry, whether at the Company's request or by resolution of the Mexican Banking and Securities Commission, the Company's controlling shareholders will be required to conduct a tender offer to purchase all the outstanding shares of the Company's capital stock that are owned by the Company's other shareholders. Under Mexican law and the Company's bylaws, the Company's controlling shareholders are those who own a majority of the Company's outstanding shares or have the power or ability to determine the outcome of actions requiring approval by the Company's shareholders during a shareholders' meeting, appoint or remove a majority of the members of the Company's board of directors, managers or other similar individuals, or determine, directly or indirectly, the course of the Company's management, strategies or principal policies.

Under Mexican law and the Company's bylaws, if after the tender offer is completed there are still outstanding shares held by the general public, the Company's controlling shareholders will be required to create a trust for at least six months, into which they will be required to contribute funds in an amount sufficient to purchase, at the same price as the offer price, all of the outstanding shares held by those members of the general public that did not participate in the offer.

The offer price will be the higher of: (i) the weighted average trading price of the Company's shares on the Mexican Stock Exchange during the 30-day period preceding the offer or (ii) the book value of the Company's shares in accordance with the most recent quarterly report submitted to the Mexican Banking and Securities Commission and the Mexican Stock Exchange. The voluntary cancellation of the registration of the Company's shares will be subject to (a) the prior authorization of the Mexican Banking and Securities Commission and (b) the authorization of the holders of no less than 95% of the Company's outstanding shares during a general extraordinary shareholders' meeting.

Additional Matters

Variable Capital

The Company is permitted to issue shares representing fixed capital and shares representing variable capital. The issuance of variable-capital shares, unlike the issuance of fixed capital shares, does not require an amendment of the Company's bylaws, although it does require a majority vote of the Company's shareholders. A holder of variable capital shares that wishes to effect a total or partial withdrawal of such shares is required to give the Company written notice of such circumstance. If a notice of withdrawal is received prior to the last quarter of the fiscal year, the withdrawal becomes effective at the end of the fiscal year in which the notice was given. Otherwise, the withdrawal becomes effective at the end of the following fiscal year.

Forfeiture of Shares

As required by Mexican law, the Company's bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to the Company's property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between the Company and the Mexican government. Non-Mexican shareholders will be deemed to have agreed not to invoke the protection of their own government with respect to such matters, and the breach of such deemed agreement may result in the forfeiture to the Mexican government of such interest or participation. Mexican law requires that this provision be included in the bylaws of all Mexican corporations unless the bylaws prohibit ownership of shares by non-Mexican persons.

Conflicts of Interest

Pursuant to the Mexican Corporations Law, none of the Company's shareholders may participate in any deliberation of, or vote on, any business transaction in which its interest conflicts with ours. Violation of this law may result in the shareholder being liable for damages, but only if the transaction would have not been approved without the shareholder's vote.

Appraisal Rights

Pursuant to the Mexican Corporations Law, if the Company's shareholders approve a change in the Company's corporate purpose, nationality or corporate form, any shareholder entitled to vote that voted against the approval of such matter will be entitled to withdraw its shares and receive the book value of such shares as set forth in the financial statements last approved by the Company's shareholders. This appraisal right may only be exercised within 15 days following the adjournment of the meeting at which the relevant change was approved.

e) Other Corporate Governance Practices

Board of Directors

The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate. See "Board of Directors."

Code of Ethics: a personal responsibility

IEnova is the image of the behavior of its people, therefore each one of us has the personal and continuous responsibility to ensure the exact fulfillment of an appropriate behavior.

The Code of Ethics covers general areas of legal and ethical principles for IEnova. We are all responsible for:

- Comply with all national and international laws, internal policies and company procedures.
- Maintain appropriate ethical behavior.
- Be alert to situations that could result in illegal actions, or in violation of the Code of Ethics or the procedures that support it.
- Report suspicions or violations of the Code of Ethics.

IEnova adheres at all times to the provisions of: (i) Universal Declaration of Human Rights, ii) Convention of the United Nations (UN) against Corruption; (iii) Convention of the Organization for Economic Cooperation and Development (OECD) to Combat Bribery of Foreign Public Officials; (iv) Law on Corrupt Practices Abroad in the US. of 1977 (according to its reforms); (v) Federal Anticorruption Law on Public Procurement of Mexico; (vi) Federal Law for the Prevention and Identification of Operations with Resources of Illegal Origin (Law against Money Laundering) of Mexico, and (vii) Federal Criminal Code of Mexico, hereinafter, "Anti-corruption Laws".

Therefore, IEnova requires that its employees complete the Corporate Ethics Training that includes, but is not limited to, the Anticorruption Laws mentioned above, when requested. They are expected to know and understand the meaning and requirements of the standards mentioned in the Code of Ethics, as well as their obligation to notify when they believe or suspect that there has been a violation of these or this Code.

Workers, regardless of their hierarchical level, who violate the Code of Ethics, the law or act in a manner contrary to current policies and procedures, will be subject to the corresponding disciplinary measures that, if they are classified as serious offenses according to law, could include the dismissal.

Workers who have additional staff are responsible for:

- Make sure that all the workers in your charge have full knowledge of the guidelines indicated here.
- To be an example in the fulfillment of laws and ethical norms, demonstrating integrity, honesty and respect in all its acts.
- Encourage an environment where workers have confidence to ask questions and report problems.
- Support workers who ask questions or comment on their concerns.

The precepts contained in this document are of general application for all employees and officers of the company without any distinction of position, position or title, so it will be understood that employees, officers, attorneys, managers and directors, including Directors and Members of the different IEnova Committees must comply at all times and conduct all their acts under the principles contained in this Code of Ethics.

Rules for Ethical Decision Making

Ethics Committee

To guide you each employee in the application of the Code of Ethics, each section of the Code of Ethics booklet contains questions and answers that help clarify certain specific situations.

The Code of Ethics can not cover all situations that may arise in the course of our work. If there are doubts or new situations not expressly contemplated, ask yourself:

- Is it legal and adheres to company policies?

- Is it fair, appropriate and consistent with the ethical values □?□?of the company?

- Have I already talked with my direct boss about my doubts?

If you the employee is still not comfortable with a situation, he or she can consult with the Corporate Ethics Office or contact the help lines.

IEnova has a free and confidential telephone line and with the Corporate Ethics Department.

Line of complaints 01-800-062-2107

Anyone can also direct your communications to confidential mail: ienova@lineadedenuncia.com or on the website: lineadedenuncia.com/ienova.

Both communication alternatives are exclusively dedicated to answering questions related to compliance with the Code of Ethics, the National Anticorruption System in Mexico, Anti-Corruption Laws, Corporate Ethics Policy, other Corporate Ethics issues, as well as receiving complaints about possible violations of these.

If you wish, you can also contact the Telephone Ethics and Compliance Line of our majority shareholder Sempra, free of charge and anonymously, at 01-800-241-5689 or via the internet by accessing the site https://iwf.tnwgrc.com/Sempra

Standards of Integrity

1. Safety
2. Customer relations-public safety
3. A workplace free from discrimination and harassment
4. A violence-free workplace
5. No intimidation in the workplace
6. No use of illegal substances and alcohol
7. Confidentiality and privacy
8. Environmental protection
9. Community activities
10. Anti-corruption and anti-bribery
11. Participation in policy
12. Fair competition
13. Government relations
14. Acquisition of goods and services
15. Regulatory compliance
16. Business gifts and gratuities
17. Share trading
18. Conflicts of interest

19. Intellectual property
20. Internal business controls
21. Financial information
22. Payments and undue collections
23. The Company's assets
24. Information management
25. Foreign Corrupt Practices Law (FCPA)

Sustainability

The Company's sustainability strategy, which encompasses the areas of financial, social and environmental sustainability, is aimed at creating value for ourselves, the Company's shareholders, customers and employees, and the communities to which the Company belongs.

The Company has characterized itself for its commitment to operating in strict compliance with the law and the regulations for the Company's industry, which has allowed it to earn and retain the confidence of the Company's various groups of constituents.

The Company's achievements in this area include the publication of the Fifth Sustainability Report (GRI, 30 indicators audited by Deloitte, Communication on progress (COP) report to UN Global Compact and, from March, 2018 and for the fourth consecutive year, IEnova has been a party of the Mexican Stock Exchange's Sustainability Index. In addition and for the fourth consecutive year, the Company attained *Great Place to Work* certification, and was recognized as a *Socially Aware Company* by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía*). Likewise, during 2015, Fundación IEnova, A. C. was incorporated to support organizations and programs that contribute to the well-being of the communities with which the Company operates, and to preserve the environment. During 2017, through IEnova foundation, the Company granted donations to 18 organizations with 28 projects and two in-kind donations in eleven cities within six states of Mexico.

These actions show IEnova's commitment with continuous improvement and with the implementation of high environmental operation, protection and preservation standards, working practices, corporate governance and social responsibility with the communities the Company operates in.

For further information on the Company's sustainability efforts, please see Ienova's 2017 Sustainability Report, available on May 31, 2018. www.ienova.com.mx

TRADING MARKET

a) Share Ownership Structure

Not applicable.

PERFORMANCE OF THE COMPANY'S SHARES ON THE MEXICAN STOCK EXCHANGE

b) Performance of The Company's Shares on the Mexican Stock Exchange

The Company's shares were first listed for trading on the Mexican Stock Exchange on March 27, 2013, under the symbol "IENOVA." Prior to that date, there had been no public market for the Company's shares.

On March 28, 2018, the closing price for the Company's shares on the Mexican Stock Exchange was Ps.88.92 per share. The following tables set forth the reported, high and low sales prices for the Company's shares on the Mexican Stock Exchange during the periods indicated. These prices constitute historical prices between financial intermediaries, do not include any commission and are not necessarily representative of prices in actual transactions. Since September 2, 2013, the Company's shares have been included in the Mexican Stock Exchange's Stock Price Quote Index (*Índice de Precios y Cotizaciones*).

Annual highs and lows:

Year	High	Low	Last	Average Trading Volume
2013	56.02	38.66	52.17	1,886,829
2014	85.90	51.50	73.80	1,034,837
2015	77.78	69.04	92.12	1,139,929
2016	90.61	67.22	90.33	2,659,053
2017	106.96	83.60	96.45	1,946,066

Source: IEnova, based on Bloomberg data. Pesos per share

Quarterly highs and lows, last three years:

Year	Quarter	High	Low	Last	Average Trading Volume
2015	First	84.34	69.84	83.24	1,137,804
	Second	92.12	77.84	77.84	1,204,334
	Third	83.28	69.04	69.04	1,112,690
	Fourth	81.21	69.84	72.34	1,088,420
2016	First	75.43	69.92	70.63	1,066,654
	Second	77.03	67.22	77.03	1,712,142
	Third	79.51	71.8	75.8	1,150,464
	Fourth	90.33	74.97	90.33	6,774,397
2017	First	93.01	83.60	89.22	2,268,024
	Second	97.13	85.07	96.77	2,019,100
	Third	102.54	93.42	101.96	1,575,750
	Fourth	106.96	95.98	96.45	1,951,393

Source: IEnova, based on Bloomberg data. Pesos per share

Monthly highs and lows, last six months:

Year	Month	High	Low	Last	Average Trading Volume
2017	October	106.96	95.98	97.89	2,483,105
	November	103.74	98.80	101.83	1,719,518
	December	102.07	95.99	96.45	1,579,805
2018	January	98.62	91.63	97.01	2,120,892
	February	98.71	89.30	89.30	1,460,379
	March	92.55	88.7	88.92	1,624,465

Source: IEnova, based on Bloomberg data. Pesos per share

According to the INDEVAL certificate, during April 2018, the Company had 213 shareholders of record. This number does not include those shareholders who hold their shares through either an intermediary or a trust. The Company's actual number of shareholders is greater than the Company's number of shareholders of records as it includes beneficial owners whose shares are held through intermediaries. The number of registered shareholders does not include either those shareholders who own shares through trusts.

c) Market Maker

On June 7, 2013, the Company announced that the Company had entered into a Market-making Services Agreement with Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México), or Credit Suisse Mexico. On December 7, 2015, the Company announced the renewal of such agreement for an additional six-month period. Pursuant to such agreement, Credit Suisse Mexico has agreed to submit purchase and sale bids for the Company's shares of stock on a firm basis and for its own account, in order to foster the increased liquidity of the Company's shares, establish price benchmarks and contribute to the continuing, stable performance of the Company's shares.

- Type of securities: Shares
- Trading symbol (issuer and series): IENOVA*
- ISIN/CUSIP No.: MX01IE060002

More specifically, Credit Suisse Mexico has agreed to submit purchase and sale bids totaling Ps.400,000, subject to a 0.5% spread. Since Credit Suisse Mexico began acting as the Company's market maker, the operation spread for the Company's shares has decreased to less than 0.5%, with an average daily trading volume of 1,602,803 shares.

On December 6, 2016, the Company announced the termination of the Market Maker Agreement with Credit Suisse México.

UNDERLYING ASSETS

Not applicable.

MANAGEMENT CERTIFICATION

April 27, 2018

We, Carlos Ruiz Sacristan, Manuela Molina Peralta and René Buentello Carbonell, in our capacities of Chief Executive Officer, Executive Vice President of Finance (CFO) and Executive Vice President General Counsel (Legal Director) of Infraestructura Energética Nova, S.A.B. de C.V, respectively, and in accordance with the provisions of Article 33, section I, paragraph (b) of the General Provisions Applicable to the Securities Issuers and Other Participants in the Securities Market, issued by the National Banking and Securities Commission, hereby declare the following:

The undersigned declare under oath that within the scope of our respective duties, we have prepared the information relating to Infraestructura Energética Nova, S.A.B. de C.V, contained in this Annual Report for the year ended December 31 2017, which, to the best of our knowledge and understanding, reasonably reflects the situation of the Company. We also declare that to the best of our knowledge, no information contained in this Annual Report has been omitted of falsified or may be misleading to investors.

____

Carlos Ruiz Sacristán
Chief Executive Officer

____

Manuela Molina Peralta
Executive Vice President of Finance
(CFO)

____

Rene Buentello Carbonell
Executive Vice President General Counsel
(Legal Director)

The undersigned declares, under protest of truth, that the consolidated financial statements of Infraestructura Energética Nova, S.A.B. de C.V. and Subsidiaries (the "Issuer") as of December 31, 2017, 2016 and 2015 and for the years that ended on those dates, contained in Appendix 1 of this annual report, were audited on March 1, 2018, in accordance with the International Auditing Standards.

Likewise, I hereby declare that I had read the annual report and, based on its reading and scope of the audit work done, I am not aware of relevant errors or inconsistencies in the information that is included and whose source comes from the audited consolidated financial statements, indicated in the previous paragraph, or of information that has been omitted or falsified in this annual report, or that it contains information that could mislead investors.

However, the undersigned was not contracted to perform, and did not perform, additional procedures in order to express an opinion regarding the other information contained in the annual report that does not come from the audited consolidated financial statements.

Sincerely,

C.P.A. Omar Esquivel Romero
Representative and External Auditor
Partner at Galaz, Yamazakí, Ruíz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

EXHIBIT

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015 and Independent Auditor´s Report Dated March 1, 2018

Index to the notes to the consolidated financial statements

Deloitte.

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Ruiz Urquiza, S.C.
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México

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Independent Auditors' Report to the Board of Directors and Stockholders of Infraestructura Energética Nova, S. A. B. de C. V. and its Subsidiaries

Opinion

We have audited the consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and its subsidiaries (the "Company" or "IEnova"), which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of profit, profit and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Infraestructura Energética Nova, S. A. B. de C. V. and its Subsidiaries as of December 31, 2017, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.

Deloitte.

Goodwill impairment testing

As described in Note 13, of the consolidated financial statements, in 2016 the Company acquired the remaining 50% equity in IEnova Pipelines, and 100% of the equity of Ventika resulting in the recognition of goodwill of $1,612 million. Management performed its first annual goodwill impairment test during the fourth quarter which uses business and valuation assumptions that require judgement, including discount rates and long term projections of revenues and costs. The most relevant matters addressed in our audit are as follows:

- The correct identification and aggregation of reporting units for purposes of the goodwill impairment test as supported by documentation or evidence of synergies.
- Testing of discount rates and projections of cash flows

Our audit procedures focused mainly on testing relevant controls and substantive procedures over relevant assumptions. We involved internal valuation specialists to assist us in auditing these matters.

Relevant contracts and transactions analysis

As described in Note 1.2 of the consolidated financial statements, the Company entered into several relevant transactions during the year, some of them requiring the determination of the appropriate accounting that can have significant implications to current and future financial statements with respect to the recognition, valuation, presentation and disclosures of the particular transaction. International Financial Reporting Standards require Management to apply its judgement to define the accounting treatment with limited specific industry guidance provided. A typical analysis requires the Company to determine whether it needs to consolidate a project; whether the arrangement contains a lease, and if so, its classification as a finance or operating lease; whether the contract meets the own use exemption or the definition of a derivative (to which hedge accounting could be applied) or it contains embedded derivatives; or, whether, it should be accounted for under another model, such as a concession arrangement. Examples of such significant transactions include: the renewable energy projects, new electric supply contracts, concession agreement and long term capacity contracts and acquisition or sale of subsidiaries.

Our audit focuses on the internal controls and performing detailed risk assessment procedures to each transaction to determine the relevant aspects of judgement to design tailored audit procedures. We also involved our technical accounting specialists to assist us in auditing these matters.

Other Information

Management is responsible for the other information. The other information comprises information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We do not report anything related to the other information.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Deloitte.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Omar Esquivel Romero
Mexico City, Mexico
March 1, 2018

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	Notes	December 31, 2017	December 31, 2016	December 31, 2015
Current assets:				
Cash and cash equivalents	4, 24	$ 37,208	$ 24,918	$ 40,377
Short-term investments	24	1,081	80	20,068
Finance lease receivables	8, 24	8,126	7,155	—
Trade and other receivables, net	5, 24	94,793	100,886	53,728
Due from unconsolidated affiliates	6, 24	24,600	12,976	27,608
Income taxes receivable	25	81,909	6,390	16,226
Natural gas inventories	7	7,196	6,083	4,628
Derivative financial instruments	24	6,130	6,913	1,926
Value added tax receivable		39,633	27,600	46,807
Carbon allowances	20	—	—	5,385
Other assets	9	10,327	9,289	8,576
Restricted cash	4, 24	55,820	51,363	—
Assets held for sale	12	148,190	191,287	—
Total current assets		515,013	444,940	225,329
Non-current assets:				
Due from unconsolidated affiliates	6, 24	493,887	104,352	111,766
Derivative financial instruments	24	1,935	1,127	—
Finance lease receivables	8, 24	942,184	950,311	14,510
Deferred income tax assets	25	97,334	89,688	78,965
Investment in joint ventures	10	523,102	125,355	440,105
Carbon allowances	20	—	—	12,975
Other assets	9	32,658	4,855	1,938
Property, plant and equipment, net	14, 28	3,729,456	3,614,085	2,595,840
Intangible assets	15	190,199	154,144	—
Goodwill	13	1,638,091	1,638,091	25,654
Total non-current assets		7,648,846	6,682,008	3,281,753
Total assets	28	$ 8,163,859	$ 7,126,948	$ 3,507,082

Liabilities and Stockholders' Equity	Notes	December 31, 2017	December 31, 2016	December 31, 2015
Current liabilities:				
Short-term debt	21, 24	$ 262,760	$ 493,571	$ 88,507
Trade and other payables	16, 24	72,638	94,566	43,849
Due to unconsolidated affiliates	6, 24	544,217	260,914	352,650
Income tax liabilities	25	3,384	13,322	14,095
Derivative financial instruments	24	41,726	10,310	—
Other financial liabilities	18, 24	10,372	5,877	6,444
Provisions	22	394	930	1,293
Other taxes payable		36,273	27,872	13,881
Carbon allowances	20	—	—	5,385
Other liabilities	19	19,631	28,861	17,237
Liabilities held for sale	12	62,522	35,451	—
Total current liabilities		1,053,917	971,674	543,341
Non-current liabilities:				
Long-term debt	23, 24	1,732,040	1,039,804	299,925
Due to unconsolidated affiliates	6, 24	73,510	3,080	38,460
Deferred income tax liabilities	25	551,614	489,607	261,294
Carbon allowances	20	—	—	12,611
Provisions	22	67,210	51,035	34,236
Derivative financial instruments	24	162,444	215,851	133,056
Employee benefits	17	6,537	5,586	4,295
Total non-current liabilities		2,593,355	1,804,963	783,877
Total liabilities	28	3,647,272	2,776,637	1,327,218
Stockholders' equity:				
Common stock	26	963,272	963,272	762,949
Additional paid-in capital	26	2,351,801	2,351,801	973,953
Accumulated other comprehensive loss		(114,556)	(126,658)	(103,944)
Retained earnings		1,316,070	1,161,896	546,906
Total equity attributable to owners of the Company		4,516,587	4,350,311	2,179,864
Commitments and contingencies	35, 36			
Events after the reporting date	38			
Total liabilities and equity		$ 8,163,859	$ 7,126,948	$ 3,507,082

See accompanying notes to the Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Profit

(In thousands of U. S. Dollars, except per share amounts)

	Notes	Year ended December 31, 2017 (Notes 1, 12)	2016 (Notes 1, 12)	2015 (Notes 1, 12)
Revenues	24, 28	$ 1,166,526	$ 717,894	$ 613,041
Cost of revenues		(303,462)	(237,789)	(257,226)
Operating, administrative and other expenses	30	(176,793)	(104,754)	(81,857)
Depreciation and amortization	14, 28, 33	(119,020)	(64,384)	(52,470)
Interest income	28, 29	22,808	6,269	6,701
Finance costs	28, 32	(72,905)	(20,836)	(9,859)
Other (losses) gains, net	31	(41,590)	2,168	(11,426)
Remeasurement of equity method investment	11	—	673,071	—
Profit before income tax and share of profits of joint ventures		475,564	971,639	206,904
Income tax expense	25, 28	(109,663)	(147,158)	(94,237)
Share of profits of joint ventures, net of income tax	10, 28	44,677	42,841	42,319
Profit for the year from continuing operations	34	$ 410,578	$ 867,322	$ 154,986
Discontinued operation:				
Loss for the year from discontinued operations, net of income tax	12	(56,404)	(112,332)	(14,797)
Profit for the year	28, 34	$ 354,174	$ 754,990	$ 140,189
Earnings per share:				
From continuing operations:				
Basic and diluted earnings per share	26, 34	$ 0.27	$ 0.70	$ 0.13
From continuing and discontinued operations:				
Basic and diluted earnings per share	12, 26, 34	$ 0.23	$ 0.61	$ 0.12

See accompanying notes to the Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

	Notes	Year ended December 31, 2017	2016	2015
Profit for the year	28, 34	$ 354,174	$ 754,990	$ 140,189
Other comprehensive income (loss):				
Items that will not be reclassified to profit or (loss):				
Actuarial gain (loss) on defined benefits plans	17	704	1,765	(1,793)
Deferred income tax related to actuarial gain (loss) on defined benefits plans		(211)	(530)	538
Total items that will not be reclassified to profit (loss)		493	1,235	(1,255)
Items that may be subsequently reclassified to profit or (loss):				
Gain (loss) on valuation of derivative financial instruments held for hedging purposes		4,586	(17,112)	(6,604)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes		(1,376)	5,133	1,981
Gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		3,270	35,308	(5,362)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		(981)	(10,592)	1,608
Gain (loss) exchange differences on translation of foreign operations		6,110	(36,686)	(29,981)
Total items that may be subsequently reclassified to profit (loss)		11,609	(23,949)	(38,358)
Other comprehensive income (loss) for the year		12,102	(22,714)	(39,613)
Total comprehensive income for the year		$ 366,276	$ 732,276	$ 100,576

See accompanying notes to the Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Notes	Common Shares	Additional paid-in capital	Other comprehensive loss	Retained earnings	Total
Balance as of December 31, 2014		$ 762,949	$ 973,953	$ (64,331)	$ 576,717	$ 2,249,288
Profit for the year		—	—	—	140,189	140,189
Actuarial loss on defined benefit plans, net income tax	17	—	—	(1,255)	—	(1,255)
Loss on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	(4,623)	—	(4,623)
Loss on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	(3,754)	—	(3,754)
Exchange differences on translation of foreign operations		—	—	(29,981)	—	(29,981)
Total comprehensive (loss) income for the year		—	—	(39,613)	140,189	100,576
Dividends paid	27	—	—	—	(170,000)	(170,000)
Balance as of December 31, 2015		$ 762,949	$ 973,953	$ (103,944)	$ 546,906	$ 2,179,864
Profit for the year		—	—	—	754,990	754,990
Actuarial gain on defined benefit plans, net income tax	17	—	—	1,235	—	1,235
Loss on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	(11,979)	—	(11,979)
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	24,716	—	24,716
Exchange differences on translation of foreign operations		—	—	(36,686)	—	(36,686)
Total comprehensive (loss) income for the year		—	—	(22,714)	754,990	732,276
Issuance of shares, net	26	200,323	1,377,848	—	—	1,578,171
Dividends paid	27	—	—	—	(140,000)	(140,000)
Balance as of December 31, 2016		$ 963,272	$ 2,351,801	$ (126,658)	$ 1,161,896	$ 4,350,311
Profit for the year		—	—	—	354,174	354,174
Actuarial gain on defined benefit plans, net income tax	17	—	—	493	—	493
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	3,210	—	3,210
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	2,289	—	2,289
Exchange differences on translation of foreign operations		—	—	6,110	—	6,110
Total comprehensive income for the year		—	—	12,102	354,174	366,276
Dividends paid	27	—	—	—	(200,000)	(200,000)
Balance as of December 31, 2017		$ 963,272	$ 2,351,801	$ (114,556)	$ 1,316,070	$ 4,516,587

See accompanying notes to the Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year ended December 31, 2017	2016	2015
Cash flows from operating activities:				
Profit for the year	28, 34	$ 354,174	$ 754,990	$ 140,189
Adjustments for:				
Income tax expense	25, 28	104,162	117,349	100,406
Share of profit of joint ventures, net of income tax	10, 28	(44,677)	(42,841)	(42,319)
Finance costs	28, 32	73,501	21,092	10,103
Interest income	28, 29	(22,808)	(6,294)	(6,743)
Loss (gain) on disposal of property, plant and equipment		7,877	(4,233)	3,601
Impairment (gain) loss recognized on trade receivables		(60)	46	30
Impairment of property plant and equipment		63,804	136,880	—
Remeasurement of equity method investment		—	(673,071)	—
Depreciation and amortization	14, 28, 33	119,020	66,606	67,682
Net foreign exchange loss (gain)		37,028	(4,652)	(8,548)
Net loss (gain) on valuation of derivative financial instruments		6,715	(21,001)	690
		698,736	344,871	265,091
Movements in working capital:				
(Increase) decrease in trade and other receivables, net		(2,368)	6,175	11,776
(Increase) decrease in natural gas inventories, net		(1,113)	(1,455)	4,747
(Increase) decrease in other assets, net		(4,204)	18,398	3,615
Increase (decrease) in trade and other payables, net		12,546	(45,302)	(17,081)
(Decrease) increase in provisions, net		(252)	16,249	(3,791)
(Decrease) increase in other liabilities, net		(2,098)	20,348	(33,638)
Cash generated from operations		701,247	359,284	230,719
Income taxes paid		(115,013)	(118,552)	(62,540)
Net cash provided by operating activities		586,234	240,732	168,179

(Continued)

	Notes	2017	2016	2015
		Year ended December 31,		
Cash flows from investing activities:				
Acquisition of subsidiaries, net of cash acquired	11	(147,638)	(1,512,248)	—
Investment in joint ventures	10	(72,067)	(100,477)	—
Veracruz marine terminal initial bidding quota	1	(28,179)	—	—
Interest received		1,089	3,875	1,047
Acquisitions of property, plant and equipment	14	(224,816)	(315,810)	(300,090)
Loans granted to unconsolidated affiliates		(505,997)	685	(1,301)
Receipts of loans granted to unconsolidated affiliates		8,152	8,262	41,596
Restricted cash		(4,457)	46,849	—
Short-term investments		(1,001)	19,988	9,952
Net cash used in investing activities		(974,914)	(1,848,876)	(248,796)
Cash flows from financing activities:				
Issuance of shares from follow on public offering		—	1,602,586	—
Shares issuance costs		—	(34,877)	—
Interest paid		(75,661)	(35,785)	(20,172)
Loans received from unconsolidated affiliates	6	377,926	1,240,000	339,600
Loans payments to unconsolidated affiliates	6	(46,702)	(1,369,600)	—
Payments of loans acquired through acquisition of subsidiary	11	(95,839)	—	—
Proceeds from bank financing		897,000	805,000	495,094
Payments related to bank financing		(1,257,531)	(459,463)	(600,094)
Proceeds from international debt offering	23	840,000	—	—
Debt issuance costs	23	(32,609)	(2,400)	(2,536)
Dividends paid	27	(200,000)	(140,000)	(170,000)
Net cash provided by financing activities		406,584	1,605,461	41,892
Net increase (decrease) in cash and cash equivalents		17,904	(2,683)	(38,725)
Cash and cash equivalents at the beginning of the year		24,918	40,377	83,637
Cash and cash equivalent used in discontinued operations	12	—	(434)	—
Effects of exchange rate changes on cash and cash equivalents		(5,614)	(12,342)	(4,535)
Cash and cash equivalents at the end of the year		$ 37,208	$ 24,918	$ 40,377

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015 (In thousands of U. S. Dollars, except where otherwise stated)

1. General information and relevant events

1.1. General information

Infraestructura Energetica Nova, S. A. B. de C. V. ("IEnova") and Subsidiaries (collectively, the "Company") are located and incorporated in Mexico. Their parent and ultimate holding company is Sempra Energy (the "Parent") located and incorporated in the United States of America ("U. S."). The addresses of their registered offices and principal places of business are disclosed in Note 40.

1.2. Relevant events

1.2.1 International Senior Notes Offering ("Senior Notes"*)*

On December 7, 2017, IEnova obtained $840.0 million related to an international Senior Notes offering, the notes were offered and sold in a private placement to qualified institutional buyers in the U. S. pursuant to Rule 144A and outside the U. S. pursuant to Regulation S under the U. S. Securities Act of 1933, as amended (the "Securities Act").

The Senior Notes received an investment grade rating from Fitch Ratings (BBB+), Moody's Corporation ("Moody's") (Baa1) and Standard & Poor's Global Ratings ("S&P") (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

The Senior Notes may not be offered or sold in Mexico absent authorization by the Comision Nacional Bancaria y de Valores (the "CNBV") in accordance with the Ley del Mercado de Valores ("Mexican Securities Market Law") and all applicable regulations and the due registration of the Senior Notes in the Registro Nacional de Valores ("National Securities Registry") maintained by the CNBV; or in the U. S. absent registration under the Securities Act or an exemption from registration therefrom.

On December 14, 2017, the Company entered into an international Senior Notes offering comprised of $300.0 million aggregate principal amount of the Company's 3.75 percent Senior Notes due 2028 and $540.0 million aggregate principal amount of the Company's 4.88 percent Senior Notes due 2048. (Please refer to Note 23.f.)

1.2.2 Credit agreements

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to $400.0 million with a syndicate group of four banks including, Banco Santander, (Mexico), S. A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico, ("Santander") Bank of Tokyo Mitsubishi ("Bank of Tokyo"), The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation ("SMBC"). The revolving credit has the following characteristics:

- U.S. Dollar-denominated.
- Twelve-month term, with an option to extend up to five years.
- Financing to repay and cancel the previous loans contracted in 2014 with Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015, the Company entered into an amended agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de Mexico, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders, (the "Credit Agreement") whereby it agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $600.0 million from the previously authorized maximum in the amount of $400.0 million. Please refer to Note 21.a.

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, N. A. ("BofA"), BBVA Bancomer S. A., Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer ("Bancomer") and Mizuho Bank, LTD ("Mizuho"), joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $1,170.0 million from the previously authorized maximum of $600.0 million. Please refer to Note 21.a.

1.2.3 Plan to market and sell TDM

In February 2016, the Company´s management approved a plan to market and sell Termoelectrica de Mexicali, S. de R. L. de C. V. and subsidiaries ("TDM"), a 625-megawatts ("MW") natural gas-fired power plant located in Mexicali, Baja California, Mexico.

As a result of the foregoing events, the assets and liabilities of TDM were presented as assets held for sale and liabilities held for sale, in the Consolidated Statement of Financial Position as of December 31, 2017 and 2016; the results of these companies are also presented within discontinued operations in the Consolidated Statements of Profit, which were retrospectively adjusted. Please refer to Note 12.

1.2.4 Purchase agreement of remaining interest in IEnova Pipelines, S. de R. L. de C. V. ("formerly Gasoductos de Chihuahua, S. de R. L. de C. V.") ("IEnova Pipelines") from Petroleos Mexicanos

On July 31, 2015, the Company announced an agreement with Petroleos Mexicanos ("Pemex") to purchase Pemex's 50 percent equity interest in IEnova Pipelines in the amount of $1,325 million. The assets involved in the acquisition include three natural gas pipelines; one ethane pipeline; one liquid petroleum gas ("LPG") pipeline; and one LPG storage terminal. Under the terms of the agreement, Pemex and IEnova maintain their existing partnership in the Los Ramones II Norte pipeline project through the project holding company, Ductos y Energeticos del Norte, S. de R. L. de C. V. ("DEN").

On September 14, 2015, the Ordinary and Extraordinary Shareholders' Meeting approved the purchase of Pemex's 50 percent equity interest hold in IEnova Pipelines.

Resolution from the Comision Federal de Competencia Economica ("COFECE") in connection with the purchase agreement of the remaining interest in IEnova Pipelines from Pemex

In December 2015, the COFECE objected to the transaction to purchase Pemex's interest in IEnova Pipelines as proposed. The parties restructured the transaction so that Pemex could proceed in accordance with the COFECE ruling.

In July 2016, IEnova announced it had reached an agreement with Pemex Transformacion Industrial ("Pemex TRI") to restructure the transaction to purchase Pemex's interest in IEnova Pipelines that was objected by the COFECE in December 2015. This agreement allowed i) Pemex TRI to satisfy the conditions imposed by the former COFECE in connection with its indirect participation in the assets known as Gasoducto San Fernando and LPG Ducto TDF and ii) IEnova to acquire Pemex TRI's participation in IEnova Pipelines once such conditions were satisfied.

On September 21, 2016, the COFECE authorized IEnova's acquisition of 50 percent of the equity of IEnova Pipelines ("IEnova Pipelines acquisition"), owned by Pemex TRI.

On September 26, 2016, IEnova Pipelines' acquisition was completed through IEnova Gasoductos Holding, S. de R. L. de C. V., (“IGH”) a subsidiary of IEnova; therefore, the Company now holds 100 percent of IEnova Pipelines' shares. The final price of the transaction was $1,077.6 million, net of cash acquired. IEnova Pipelines joint venture with Pemex TRI remains after the acquisition, as originally contracted, each holding 50 percent of the shares in DEN. Through DEN, IEnova and Pemex TRI preserved their energy infrastructure joint venture of the construction of the Los Ramones Norte pipeline and the potentially development of new projects. Please refer to Note 1.2.5. related to financing transaction. Please refer to Note 1.2.8. for purchase agreement of DEN.

IEnova Pipelines has been included in the Company’s Consolidated Financial Statements since the acquisition date (September 26, 2016). Please refer to Note 11.1.

1.2.5 Bridge loan for IEnova Pipelines acquisition

a. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $800.0 million with Sempra Global (“SEG”). The loan has the following characteristics:

- U.S. Dollar-denominated.
- Two-month term.
- Use to finance the acquisition of IEnova Pipelines.

In October 2016, the Company repaid this Bridge Loan.

b. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount $350.0 million with Semco Holdco, S. de R. L. de C. V. (“Semco”). The loan has the following characteristics:

- U.S. Dollar-denominated.
- Two-month term.
- Use to finance the acquisition of IEnova Pipelines.

In October 2016, Semco bought IEnova’s shares from the common stock follow-on equity offering (“Global Offering”). Semco acquired 83,125,000 shares, at a value per share of $80.0 Mexican Pesos, the total amount of this transaction amounted to approximately $350.0 million, equivalent to the amount of this loan, therefore Semco relieved IEnova from the payment obligation of the loan as settlement for shares.

1.2.6 Global Offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova’s outstanding ownership interest.

Total capital raised, net of expenses and the corresponding taxes, was $29,941.0 million Mexican Pesos (approximately $1.6 billion of U.S. Dollars), the proceeds were used to repay the bridge loan to its affiliate Sempra Global, used to purchase the remaining 50 percent of IEnova Pipelines from Pemex TRI, to fund a portion of the acquisition of the Ventika wind-farm and to fund capital expenditures and general corporate purposes. Please refer to Note 26.2.

As a result of the Global Offering, the Company raised $30,400.0 million Mexican Pesos, and the issuance costs amounted to $0.5 million Mexican Pesos. Please refer to Note 26.2.

The Company in order to complete the transaction mentioned in Note 1.2.4., entered into four forward exchange rate contracts with a maturity date in October 2016. The effect of these forwards was $3.4 million, and was recognized in the Consolidated Statement of Profit within other gains and losses.

1.2.7 Purchase agreement of Ventika wind farm

On September 2, 2016, the Company agreed to acquire IEnova Ventika Holding, B. V. ("formerly Fisterra Energy Netherlands III, B. V."), IEnova Ventika Holding II, B. V. ("formerly Fisterra Energy Netherlands IV, B. V."), IEnova Ventika Mexico, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico III, S. de R. L. de C. V."), IEnova Ventika Mexico II, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico IV, S. de R. L. de C. V."), Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively “Ventika”), a 252-MW wind generation facility, located in the state of Nuevo Leon, Mexico. Ventika was jointly developed by Fisterra Energy and Cementos Mexicanos, S. A. de C. V. The construction was completed in December 2015 and commercial operations started in April 2016.

This transaction was approved in an Extraordinary Shareholders’ Meeting on October 7, 2016.

In December 2016, the COFECE authorized the acquisition of 100 percent of the equity interest in Ventika. The transaction was completed on December 14, 2016 through Controladora Sierra Juarez, S. de R. L. de C. V. (“CSJ”) a subsidiary of IEnova. The final price of the transaction was $434.7 million, plus the assumption of outstanding debt of $485.3 million.

The loans fully mature in March 2032, and bear interest equal to a fixed base rate or London Interbank Offered Rate (“LIBOR”) plus a spread of 3.03 percent to 3.93 percent, which varies over the term of the loans. To moderate the exposure to interest rate and associated cash flow variability, Ventika entered into floating-to-fixed interest rate swaps to have almost 92 percent of the full amount of the loans fixed.

Ventika has been included in the Consolidated Financial Statements since the acquisition date (December 14, 2016). Please refer to Note 11.2.

1.2.8 Purchase agreement of DEN

On October 6, 2017, the Company announced the agreement to acquire Pemex TRI's participation in DEN.

On November 10, 2017, the COFECE authorized the transaction. The purchase price paid was $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 million of existing debt, and the proportional amount of Los Ramones II Norte pipeline project financing of $289.0 million. This debt will not be consolidated on IEnova’s Consolidated Financial Statements.

This acquisition increased IEnova's indirect participation in the Los Ramones II Norte pipeline from 25 percent to 50 percent through TAG Norte Holding, S. de R. L. de C. V. (“TAG”).

Please refer to Notes 10.4., 10.5. and 11.3.

1.2.9 Financing with unconsolidated affiliates

a. On March 2, 2015, IEnova entered into two related party revolving credit facilities by $90.0 million with Inversiones Sempra Latin America Limitada (“ISLA”) and $30.0 million with Inversiones Sempra Limitada (“ISL”).

On December 27, 2016, IEnova entered into a $70.0 million revolving credit facility with ISLA.

On March 21, 2017, IEnova entered into a $85.0 million affiliate credit facility with ISL. The credit is a twelve-month term, with an option to extend it for up to four years.

Effective June 1, 2017, ISLA was merged with and into ISL which is the surviving entity in the merger, the agreements conditions between ISL and IEnova remain the same.

On December 15, 2017 the Company signed addendums modifying the contracts terms over the $90.0 million, $30.0 million and $70.0 million credit facilities with ISL and the new characteristics are:

- The term was extended and are due and payable in full on December 15, 2018.

The revolving credit facilities are intended to finance working capital needs and general corporate purposes. Please refer to Note 6.1.iii.

b. On December 22, 2015, IEnova entered into a related party revolving credit facility in the amount of $219.6 million with Sempra Energy Holdings XI, B. V. ("SEH").

On August 1, 2016 the Company repaid $120.5 million of this credit facility, including corresponding interest.

In October 2016, with the proceeds from the Global Offering, the outstanding balance of $99.5 million was paid in full by the Company.

On August 23, 2017 IEnova entered into a $132.8 million U.S. Dollar denominated affiliate credit facility with SEH.

The revolving credit facilities are intended to finance working capital needs and general corporate purposes. Please refer to Note 6.1.iv.

c. On December 27, 2016, IEnova entered into a related party revolving credit facilitie for $20.0 million with Peruvian Opportunity Company S. A. C. ("POC").

On April 27, 2017, IEnova entered into a $19.0 million revolving credit facility with POC.

On June 26, 2017, IEnova entered into a $21.0 million revolving credit facility with POC.

On September 29, 2017, IEnova entered into a $21.0 million revolving credit facility with POC.

On December 28, 2017, IEnova entered into a $21.0 million revolving credit facility with POC.

The revolving credit facilities are intended to finance working capital needs and general corporate purposes. Please refer to Note 6.1.v.

1.2.10 Projects under development

a. Liquefaction project

During March 2015, the Company, together with its subsidiary IEnova Marketing, S. de R. L. de C.V. ("IEnova Marketing") (formerly, IEnova LNG, S. de R. L. de C. V.), announced the execution of a "Memorandum of Understanding" ("Memorandum") with a subsidiary of Pemex, for collaboration in the development of a natural gas liquefaction project at Energia Costa Azul, S. de R. L. de C. V. ("ECA"). ECA is a subsidiary of IEnova and is a liquefied natural gas ("LNG") receipt, storage and regasification facility, located in Ensenada, Baja California, Mexico. The Memorandum defines partner participation in the liquefaction project, including the development, structuring and the terms under which Pemex may become a client and/or investor.

b. Marine pipeline

In June 2016, Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG"), the joint venture formed between IEnova and TransCanada Corporation ("TransCanada"), whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest, resulted the winner of a bidding process and entered into a 25-year natural gas transportation service agreement with the Comision Federal de Electricidad ("CFE"), in connection with the bid issued by CFE for the South Texas–Tuxpan marine pipeline. IMG shall be responsible for the development, construction, and operation of the 42-inch pipeline, with a capacity of 2,600 Million Cubic Feet per Day ("MMCFPD") and a length of approximately 800 kilometers ("km"). The project will require an investment of approximately $2.1 billion and is expected to begin operations in the last quarter of 2018. Please refer to Note 10.3.

c. La Rumorosa Solar Project and Tepezala II Solar Project

On September 28, 2016, the Company was declared winner of two solar projects, bided by the Centro Nacional de Control de Energia ("CENACE"), La Rumorosa Solar Complex ("La Rumorosa") and Tepezala II Solar Complex ("Tepezala II") with an approximate capacity of 41 MW, located in Baja California, Mexico and 100 MW capacity, located in Aguascalientes, Mexico, respectively. The Tepezala II project will be developed and constructed in collaboration with Trina Solar Holdings, B. V. ("Trina Solar") who will have a 10 percent stake in this project.

The Company, through its subsidiaries will be responsible for the development, construction, operation and maintenance of these projects, including the permits, rights, financing and land acquisition. The estimated investment for these projects is $150.0 million and the beginning of commercial operations is expected to occur in the second quarter of 2019.

Trina Solar has the option to sell, Trina Solar's ownership interest at the end of the construction period, before operations commence.

d. Pima Solar Project

In March 2017, the Company, through one of its subsidiaries executed a 20-year electric supply contract with Deacero, S. A. P. I. de C. V. to provide energy, clean energy certificates, and capacity from a new solar power plant located in Caborca, Sonora, Mexico.

The Company will be responsible for all aspects of the project implementation, including permitting, acquisition of land and rights of way, engineering, procurement, construction, financing, operations and maintenance.

The solar power plant will have a 110 MW capacity. The estimated investment for this project is $115.0 million. The beginning of commercial operations is expected to occur in the fourth quarter of 2018.

e. Veracruz marine terminal and in-land terminal projects

On July 12, 2017, the Company won the Administracion Portuaria Integral de Veracruz, S. A. de C. V. ("API") bid for a 20-year transfer of its concession rights of an area to build and operate a marine terminal for the reception, storage and delivery of refined products.

According to the bidding basis, the Company made a onetime counter-payment offered for the right to build, use, leverage and benefit from the operation of the Veracruz marine terminal, in two installments, each equivalent to the 50 percent of the total amount, the first payment of $500.0 million Mexican Pesos ($28.2 million U. S. Dollars) was settled on August 1, 2017, prior to the execution of the concession agreement, as per bidding basis.

The Company paid the remaining 50 percent of a counterpayment fee for $500.0 million Mexican Pesos, on January 8, 2018.

On August 3, 2017, the Company executed the 20-year concession agreement with the Veracruz API to develop, construct and operate the aforementioned marine terminal. The concession includes the transfer, during 2018, of the waterfront lot where the terminal will be built.

With an investment of approximately $166.0 million U.S. Dollars, the terminal will have a capacity of 2,120,000 barrels and is expected to begin operations at the end of 2018.

Additionally, the Company will build and operate two storage terminals that will be strategically located in Puebla and Mexico City, and will have initial storage capacities of approximately 500,000 and 800,000 barrels, respectively. With an investment of approximately $120.0 million U.S. Dollars, the two in-land terminals will start operations during 2019.

The Company will be responsible for the implementation of the projects, including the obtaining of permits, engineering, procurement, construction, operation, maintenance, financing and providing services.

On July 29, 2017, the Company executed three long-term firm capacity contracts with Valero Marketing and Supply de Mexico, S. A. de C. V. (“Valero”) for the receipt, storage capacity and delivery of hydrocarbons in the Veracruz marine terminal and for the two in-land terminals to be constructed in Puebla and Mexico City, for a 20-years term, the contracts are denominated in U.S. Dollars.

Valero plans to import refined products including gasoline, diesel and jet fuel, and store them at the Veracruz marine terminal. Locally, the products will be distributed by truck and transported to Puebla and Mexico City by rail.

After commercial operations, and subject to all relevant regulatory and corporate authorizations as well as the approval of the API of Veracruz, Valero will have the option to acquire 50 percent of the equity in each of the three terminals.

f. Wind power generation facility

On November 16, 2017, the Company through Energia Sierra Juarez 2 U. S., LLC, a wholly owned affiliate, executed a 20-year power purchase agreement with San Diego Gas & Electric Company, a IEnova's unconsolidated affiliate. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California, Mexico. The project will have a capacity of 108 MW and will require an investment of approximately $150.0 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

1.2.11 Others matters

a. Payment of financial derivatives held for hedging purposes

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings. In 2007, the original hedged items became probable of not occurring due to a change in the Company’s external borrowing needs. As of December 31, 2014, there was one remaining interest rate swap agreement under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5 percent. The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a payment in the amount of $29.8 million and as a result, such derivative was canceled.

b. Energy Reforms

On December 20, 2013, Mexico's president enacted constitutional reform with respect to laws governing the energy sector, which was approved by the national congress and the majority of state congresses. The Reform modifies Articles 25, 27 and 28 of the Mexican Constitution, allowing for private investment in the following areas: exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution of petroleum products and power transmission and distribution. On August 11, 2014, the secondary legislation derived from the reform was enacted and on October 31, 2014, its most relevant regulations were published in the Federal Official Gazette. 2015 and 2016 witnessed the implementation of the Reform since particular regulation (General Administrative Procedures) regarding natural gas, electricity, renewables and liquids were issued by the Energy Regulatory Commission. The Centro Nacional de Control del Gas Natural ("CENAGAS") and CENACE started functioning as the Independent System Operators of the natural gas and national electricity systems (Sistrangas and National Electrical System), and Pemex and CFE had important corporate restructures.

c. Credit Ratings

On November 30, 2017, S&P gave the Company a global corporate credit rating of BBB with a stable outlook, and Fitch Ratings gave IEnova long-term foreign and local currency issuer default ratings of BBB+ with a stable outlook.

1.3. Activities

The Company operates in the energy sector. The Company is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova. (Please refer to Note 28.).

The Gas segment develops, owns and operates, or holds interests in, natural gas, LPG ethane pipelines, storage facilities for LNG, and LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo Leon and Jalisco, Mexico. It also owns and operates a LNG terminal in Baja California, Mexico for importing, storing and regasifying LNG.

The Power segment develops three solar projects located in Baja California, Aguascalientes and Sonora, Mexico, owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, owns a wind farm located in Nuevo Leon, Mexico and holds interests in a renewable energy project in a joint venture in Baja California, Mexico, both renewable energy projects use the wind resources to serve costumers in Mexico and in the U. S., respectively.

The Company develops a project for the construction of a marine terminal and two in-land terminals for the reception, storage and delivery of refined products, located in Veracruz, Mexico City and Puebla, Mexico, respectively.

The Company obtained the corresponding authorization from the Comision Reguladora de Energia ("CRE") in order to perform the regulated activities.

Seasonality of operations. Customer demand in both Gas and Power segments experience seasonal fluctuations. For the Gas segment, the demand for natural gas service is higher in colder months. In the case of the Power segment, the demand for power distribution service is higher during months with hot weather.

1.3.1. Gas segment

The Company's subsidiaries included in this reportable segment are:

a. Ecogas Mexico, S. de R. L. de C. V. ("ECO") is engaged in the distribution and sale of natural gas for industrial, residential and commercial use in three local distribution zones: Mexicali (serving the city of Mexicali, Baja California), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtemoc and Anahuac) and La Laguna-Durango (serving the cities of Torreon, Gomez Palacio, Lerdo and Durango), with pipelines of approximately 3,795 km in lenght.

   During 1996, 1997 and 1999, the CRE, granted ECO the first natural gas distribution permits for the local distribution zones of Mexicali, Baja California, Chihuahua, Chihuahua and La Laguna-Durango, under which ECO receives, transports, delivers and sells natural gas through a pipeline system.

   In May 2009, the CRE approved the third five-year plan to ECO for the local distribution zones of Chihuahua, Chihuahua and Mexicali, Baja California, and in June 2010 for the local distribution zone of La Laguna-Durango. Additionally, in 2016, the CRE authorized an adjustment to the authorized tariffs to be applied in the five-year plan for the local distribution zones of Chihuahua, Chihuahua and La Laguna-Durango and in 2017 an actualization to tariffs related to inflationary effects. The five-year plans do not include commitments regarding the minimum number of customers. As of December 31, 2017, 2016 and 2015, ECO had over 120,000, 119,000 and 113,000 customers, respectively.

b. PE International Canada, S. de R. L. de C. V. ("PEI") is a subholding company of the group.

c. Servicios DGN de Chihuahua, S. A. de C. V. ("SDGN") provides administrative, and operational services to other affiliates of the group.

d. Gasoducto Rosarito, S. de R. L. de C. V. ("GRO") renders services of transportation of natural gas, serving the energy requirements of Baja California, Mexico. GRO operates the Gasoducto system comprised of three natural gas pipelines (*Rosarito Mainline, LNG Spur and Yuma Lateral)* and one 30,000 horse power ("HP") compression station located in Baja California, Mexico. The total length of GRO system is approximately 302 km. The system begins at the interconnection with the El Paso Natural Gas Co. pipeline near Ehrenberg, Arizona, U. S. ("North Baja Pipeline"), and ends in southern Tijuana, Baja California at the interconnection with the Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("TGN", a subsidiary company) pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones, Baja California with the North Baja Pipeline and travels through Mexicali and Tecate, Baja California ending at the interconnection with TGN. These three pipelines operate under one transportation permit issued by the CRE.

   Rosarito Mainline: This system was originally placed in service in August 2002 to supply natural gas from the U.S. to several power plants and industrial customers in the Baja California, Mexico market. This system is a 30-inch diameter pipeline with a length of approximately 225 km and a designed transportation capacity of 534 MMCFPD.

   LNG Spur: This system was completed in May 2008 and transports natural gas to the Rosarito Mainline for delivery to power plants to the Baja California market. This system is a 42-inch diameter pipeline with a length of approximately 72 km and a designed transportation capacity of 2,600 MMCFPD.

   Yuma Lateral: This system was the latest addition to the GRO transportation system and was placed in service in March 2010 to transport natural gas to the Arizona border. This system is a 12-inch diameter pipeline with a length of approximately 5 km and a designed transportation capacity of 190 MMCFPD.

   Effective August 1, 2017, GRO was merged with and into Gasoductos de Aguaprieta, S. de R. L. de C. V. ("GAP") which is the surviving entity in the merger.

e. TGN is engaged in the transportation of natural gas in accordance with a permit issued by the CRE, through a 45 Km, 30-inch pipeline with a designed transportation capacity of 940 MMCFPD as permitted by the CRE. TGN interconnects with the GRO pipeline system in the Tijuana, Baja California, Mexico, area and extends north to interconnect with the San Diego Gas & Electric Company ("SDG&E", an unconsolidated affiliate in the U. S.) system at the Otay Mesa International border and southwest to the CFE's 600 MW Presidente Juarez Power Plant in Rosarito, Baja California, Mexico. The TGN pipeline system was placed in service in June 2000. A 19 km expansion to the TGN system began operations in May 2008.

   Effective August 1, 2017, TGN was merged with and into GAP which is the surviving entity in the merger.

f. IEnova Gasoductos Mexico, S. de R. L. de C. V. ("IEnova Gasoductos Mexico") is engaged in the acquisition and subscription of any kind of participation in the capital stock of a variety of companies; its subsidiaries are engaged in the compression, storage and transportation of natural gas and LPG as well as in rendering all kind of services related to such activities, including the coordination, consulting and supervision of construction and development of energy infrastructure projects.

   Sempra Compresion Mexico, S. de R. L. de C. V. ("SCM") was incorporated on August 8, 2003, as a result of a spin-off of El Paso Energy Marketing de Mexico, S de R. L. de C. V. ("EPEMM"). It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

   In 2001, SCM entered into an agreement with Pemex TRI to provide natural gas compression services for a 20-year period. The term of the agreement may be extended up to five additional years by mutual agreement between SCM and Pemex TRI.

   In 2014, SCM was merged into IEnova Gasoductos Mexico subsisting this last company.

g. GAP, a subsidiary of IEnova Gasoductos Mexico, was incorporated on July 4, 2001 and commenced operations on November 20, 2002. GAP is primarily engaged in the transportation of natural gas.

   On July 19, 2002, GAP obtained its natural gas transportation permit from the CRE. The term of the permit is for 30 years and is renewable every 15 years.

   On June 28, 2002, GAP entered into a 25-year gas transportation agreement with EPEMM, a related party until April 2010. The pipeline starts at the border of Arizona, U. S., and extends to the power plant called "Naco-Nogales", which is owned by Power and Energy Naco Nogales, S. A. de C. V., located in Agua Prieta, Sonora, Mexico.

   Sonora pipeline: In October 2012, GAP was awarded two contracts by the CFE with two contracts to build and operate an approximately 835 km natural gas pipeline network connecting the Northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline.

   The Sonora pipeline is comprised of two segments; the first one (Sasabe – Guaymas), has an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one (Guaymas – El Oro), has an approximate length of 330 km, and 30-inch pipeline with 510 MMCFPD of transportation capacity and started commercial operation on May 19, 2017.

   On August 18, 2014, CFE granted a compliance certification for the Sasabe – Puerto Libertad segment construction. The first 220 km, of the first segment were put into operation in the fourth quarter of 2014. The second 285 km of the first segment (Puerto Libertad – Guaymas), this segment started commercial operation in the third quarter of 2015.

The capacity of the Sonora pipeline is contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

Ojinaga - El Encino pipeline: In December 2014, GAP, entered into the Ojinaga pipeline natural gas transportation services agreement with the CFE, which has a term of 25 years. The CFE contracted 100 percent of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion Cubic Feet Per Day ("CFPD"). The 42-inch pipeline, with a length of approximately 222 km. This segment started commercial operation on June 30, 2017.

San Isidro - Samalayuca pipeline: During 2015, the Company, through its subsidary GAP, was declared winner of the CFE tender for a natural gas transportation contract through a pipeline from San Isidro to Samalayuca in the State of Chihuahua. Such project consists of a header facility with a capacity of 3 billion CFPD and a 23 km pipeline with a capacity of 1,135 MMCFPD of natural gas. The system supplies natural gas to the Norte III Combined Cycle Power Plant and interconnect with the following systems: Gasoductos de Chihuahua, Tarahumara Pipeline and the Samalayuca-Sasabe pipeline. This segment started commercial operation on March 31, 2017. The contract maturity is 25 years.

El Empalme pipeline branch: In May 2016, IEnova entered into a natural gas transportation service agreement with CFE for a 21 year term, denominated in U.S. Dollars, for 100 percent of the transportation capacity of the Ramal Empalme pipeline, equal to 226 MMCFPD of natural gas. The 20 km pipeline branch. This segment started commercial operation on June 24, 2017.

h. IGH is engaged in the acquisition and subscription of any participation in the share capital of various companies.

i. IEnova, S. de R. L. de C. V. is engaged in providing administrative and operating services to other subsidiaries in the group.

   During 2015, this entity was liquidated.

j. ECA, owns and operates an LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, Mexico.

   During 2007, ECA obtained all necessary operating permits from Mexican regulatory agencies and operations commenced in May 2008.

   In December 2009, ECA completed the construction of a nitrogen injection facility to allow customers to deliver LNG with a greater range of gross heating value. The nitrogen injection facility produces nitrogen that can be mixed with natural gas when it is necessary to lower the heating content to meet pipeline gas quality standards in Mexico and the U. S.

   ECA entered into a 20-year firm storage service agreement with Sempra LNG International, LLC ("SLNGI", an unconsolidated affiliate in the U.S.) through IEnova Marketing for which SLNGI is committed to pay for the 50 percent of the total storage capacity of the LNG Terminal. The agreement commenced in May 2008 after the LNG Terminal was placed in service. In April 2009, the shipper assigned the remaining contracted storage capacity to other independent third parties.

k. IEnova Marketing provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova Marketing began operating jointly with ECA. Up to that date, the activities of IEnova Marketing were primarily focused on obtaining necessary permits to operate.

   In November 2009, IEnova Marketing entered into an agreement with SLNGI, whereby SLNGI agreed to deliver and sell LNG cargoes to IEnova Marketing from startup date of the LNG Terminal. Accordingly, IEnova Marketing entered into transportation and storage capacity service agreements to commercialize the LNG.

Thereafter, on January 1, 2013, SLNGI and IEnova Marketing entered into an LNG sale and purchase, transportation and supply agreement expiring on August 20, 2029. The minimum annual quantity committed for delivery is 188 million British Thermal Units ("MmBtus"). Under the terms of the agreement, SLNGI will be responsible for the transportation to the receiving terminal of all quantities of LNG sold and delivered from the delivery point to the receiving terminal and, IEnova Marketing will take LNG in order to meet its purchase commitments.

l. IEnova Pipelines is engaged in providing natural gas and LPG transportation services through Gasoductos de Tamaulipas, S de R. L. de C. V. ("GdT"), Gasoductos del Noroeste, S. de R. L. de C. V. ("GdN") and TDF, S. de R. L. de C. V. ("TDF"), respectively, it also stores gas for the supply of LPG, though Transportadora del Norte SH, S. de R. L. de C. V. ("TdN", TDF's holding company). These activities are regulated by the CRE. IEnova Pipelines is also engaged as well in the ethane gas transportation service through Gasoductos del Sureste, S. de R. L. de C. V. ("GdS").

IEnova Pipelines has to follow the rulings authorized by the CRE. Those contain among other things, general service provision conditions for the service supply, tariff limits, the approved maximum revenues and the route followed by the gas pipeline proposed by the companies. The construction program and established investments in each permit must have been developed by IEnova Pipelines. In addition, the rulings require that a review of the maximum revenue be performed every five years to make any adjustments required regarding revenue and the related tariffs.

GdT - San Fernando pipeline: a fully bi-directional system that is comprised of a 36-inch diameter pipeline with an approximate length of 114 km and a capacity of 1,460 MMCFPD and two compression stations with a total of 95,670 HP. The pipeline extends from the El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas. CENAGAS, as transferee of Pemex TRI, is the sole customer of the San Fernando pipeline and also purchases the system's unused compression capacity on an as-needed basis pursuant to an interruptible transportation services agreement. The services agreement with CENAGAS has an initial term of 20 years beginning in 2003, but is extendable for a five-year period at the customer's option.

IEnova Pipelines - Samalayuca pipeline: a 24-inch diameter pipeline with an approximate length of 37 km and a capacity of 400 MMCFPD. The Samalayuca pipeline, which began operations in 1997, was the first privately-owned natural gas pipeline in Mexico. The Samalayuca pipeline extends from Ejido San Isidro, Chihuahua, to CFE's Samalayuca power plant and interconnects with a separate, 16-inch diameter pipeline owned by Pemex TRI that extends from Ciudad Juarez to Chihuahua. IEnova Pipelines has entered into long-term transportation service agreements with the Samalayuca pipeline's customers, which have 50 percent of the system's design capacity contracted on a firm basis.

IEnova Pipelines - Gloria a Dios compression station: a 14,300 HP compressor with a capacity of 60 MMCFPD. It is installed at the interconnection point of the Samalayuca pipeline and Pemex TRI's Ciudad Juarez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. CFE, which is the station's sole customer, has contracted 100 percent of the station's capacity on a firm basis through 2021, at the rates established by the CRE, pursuant to a transportation and compression services agreement. Under this agreement, the Gloria a Dios compression station provides compression services for the Chihuahua II power plant, transports natural gas from an interconnection between Kinder Morgan's pipeline system and the Samalayuca pipeline at the Mexico–U.S. border, and delivers the compressed gas to the interconnection point of the Samalayuca pipeline and Pemex TRI's pipeline system.

TDF - LPG pipeline: a system comprised of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Barrels per day ("Bbld") of LPG, a pumping station located near the pipeline's point of delivery, and a reception facility that includes two storage spheres with a combined storage capacity of 40,000 Bbld.

The TDF's LPG pipeline, which was the first private LPG pipeline in Mexico, extends from Pemex TRI's Burgos LPG production area in the State of Tamaulipas to a delivery facility near Monterrey, Nuevo Leon. The TDF's LPG pipeline has in place a firm transportation services agreement with Pemex TRI, which expires in 2027.

TdN - Guadalajara LPG terminal: in 2013 TdN completed the construction of an LPG storage facility with a capacity of 80,000 Bbld near Guadalajara, Jalisco. This facility consists of four storage spheres, each with a capacity of approximately 20,000 Bbld, ten loading bays, and an interconnection with a separate LPG pipeline system that is owned by Pemex TRI. The Company has entered into several 15-year storage service agreements with Pemex TRI, pursuant to which it has contracted 100 percent of the terminal's capacity through 2028.

GdN - Los Ramones I pipeline: the system is comprised of a 48-inch diameter pipeline with an approximate length of 116 km and two compression stations with a total of 123,000 HP. The Los Ramones I pipeline transports natural gas from northern Tamaulipas, near the Mexico-U.S. border, to the interconnection point with the Los Ramones II Norte pipeline and Mexico's national pipeline system in Los Ramones, Nuevo Leon. CENAGAS, as transferee of Pemex TRI, is the sole customer of this facility under a 25-year firm transportation services agreement.

GdS - Ethane pipeline: an approximately 224 km system comprised of three segments. The first segment is a 20-inch diameter pipeline with a transportation capacity of approximately 33 MMCFPD (0.6 MMThd). The second segment is a 16/24-inch diameter pipeline with a transportation capacity of approximately 100 MMCFPD (1.8 MMThd). The third segment is a 20-inch diameter pipeline with a transportation capacity of approximately 106 MMCFPD (1.9 MMThd). The Ethane pipeline transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas, and Veracruz to the Ethylene XXI ethylene and polyethylene polymerization plant in the State of Veracruz. Pemex TRI, the sole customer of this facility, has contracted 100 percent of its capacity for a period of twenty one years under a purchase agreement on a take-or-pay basis. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

m. DEN provides operation and maintenance services to the Los Ramones II Norte pipeline system under a 25-year term agreement, starting in February 2016, the commercial operations date DEN owned 50 percent of TAG, which owned 99.99 percent of TAG Pipelines Norte, S. de R. L. de C. V. ("TPN"), under which the Los Ramones II Norte pipeline was built. On November 15, 2017, IEnova completed the acquisition of Pemex TRI 50 percent interest in DEN, through this acquisition IEnova increased its ownership interest in TAG from 25 percent to 50 percent. DEN became a wholly owned, consolidated subsidiary of IEnova. Please refer to Note 11.3.

1.3.2. Power segment

The Company's subsidiaries included in this reportable segment are:

a. TDM, a 625-MW natural-gas-fired, combined-cycle power generation facility located in the city of Mexicali, Baja California, is engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate and export electricity.

   On January 1, 2013 (with an effective date of January 1, 2012), Sempra Generation, LLC. ("SGEN") and TDM entered into a new commercial agreement, for which TDM delivers all of its power output directly to the California's Independent System Operator power grid ("CAISO") in the U. S. at the Mexico border, and SGEN provides marketing, scheduling and dispatch services for TDM.

b. In October 2013, ESJ began the construction of the 155 MW first phase of the wind generation project, which is fully contracted by SDG&E and started operations in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the ESJ wind project entered into a $240.0 million loan agreement to finance the construction project. The credit facilities mature on June 30, 2033.

The loan agreement also provides for a \$31.7 million letter of credit facility. ESJ also entered into a separate Mexican Peso denominated credit facility for up to \$35.0 million U.S. Dollar equivalent to fund the VAT of the project. On December 23, 2015, ESJ repaid and canceled the total credit facility related to VAT. Please refer to Note 10.2.

c. In December 2016, the Company acquired 100 percent of the equity interests of Ventika's wind farm, located in the State of Nuevo Leon, approximately 56 km from the U.S. border. It is powered by 84 turbines, provides an aggregate of up to 252 MW of generating capacity, and is connected to CFE's transmission line. Ventika's location has one of the strongest wind resources in the country. It started operations in April 2016, and substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar-denominated, energy supply agreements.

1.3.3. Corporate segment

The Corporate Segment holds interests in the transportation, storage, distribution, and regasification of gas, and hold interest in power generation operations in Mexico.

a. Sempra Servicios Energeticos, S. de R. L. de C. V. ("SSE") is a holding company that invests in affiliated companies in the electricity and natural gas industries.

b. Fundacion IEnova, A. C., was established as a non-profit organization.

2. Significant accounting policies

2.1. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2. Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments, and assets and liabilities recognized upon business combinations that are measured at revalued amounts of fair values at the end of reporting period, as explained in the accounting policies below. (Please refer to Note 11.).

a. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b. Fair value

Fair value ("FV") is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, *Leases* and measurement that have some similarities for fair value but are not fair value, such as net realizable value in IAS 2, *Inventories* or value in use in IAS 36, *Impairment of assets.* In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2.3. Consolidation of Financial Statements

2.3.1. Basis of consolidation

The Consolidated Financial Statements of IEnova incorporate the Financial Statements of all entities where it maintains control (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not controls an investee if facts and circumstances indicate that there are changes to one or more of the three control elements that were listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit and Other Comprehensive Income ("OCI") from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Company accounting policies.

All intercompany transactions, assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the year ended December 31, 2017 is as follows:

Company	Ownership percentage 2017
Gas Segment:	
Ecogas Mexico, S. de R. L. de C. V.	100.00
PE International Canada, S. de R. L. de C. V.	98.99
Servicios DGN de Chihuahua, S. A. de C. V.	100.00
Gasoducto Rosarito, S. de R. L. de C. V. ("Merged in 2017 with GAP")	100.00
Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("Merged in 2017 with GAP")	100.00
IEnova Gasoductos Mexico, S. de R. L. de C. V.	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V.	100.00
IEnova Gasoductos Holding, S. de R. L. de C. V.	100.00
IEnova, S. de R. L. de C. V.	100.00
Energia Costa Azul, S. de R. L. de C. V. and Subsidiary	100.00
IEnova Marketing, S. de R. L. de C. V.	100.00
Ductos e Infraestructura Marina, S. de R. L. de C. V.	100.00
IEnova Gas, S. de R. L. de C. V.	100.00
IEnova Pipelines, S. de R. L. de C. V.	100.00
Gasoductos de Tamaulipas, S. de R. L. de C. V.	100.00
Gasoductos del Noroeste, S. de R. L. de C. V.	100.00
Transportadora del Norte SH, S. de R. L. de C. V.	100.00
TDF, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos Servicios Subholding, S. de R. L. de C. V.	100.00
Gasoductos Ingenieria, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos y de Administracion, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Norte, S. de R. L. de C. V.	100.00
IEnova Infraestructura Marina Holding, B.V.	100.00
IEnova Petroleum Liquids Holding, B.V.	100.00
ESJ Renovable III, S de R. L. de C. V.	100.00
IEnova Gasoductos Holding, LLC	100.00
Sempra Ecogas Holdings, LLC	100.00
IEnova Petroliferos Holdings, S. de R. L. de C. V.	100.00
IEnova Petroliferos III, S. de R. L. de C. V.	100.00
IEnova Petroliferos IV, S. de R. L. de C. V.	100.00
Power segment:	
Termoelectrica de Mexicali, S. de R. L. de C. V. and Subsidiaries	100.00
Controladora Sierra Juarez, S. de R. L. de C. V.	100.00
IEnova Ventika Holding, B.V.	100.00
IEnova Ventika Holding II, B.V.	100.00

Company	Ownership percentage 2017
IEnova Ventika Mexico, S. de R. L. de C. V.	100.00
IEnova Ventika Mexico II, S. de R. L. de C. V.	100.00
Ventika, S.A.P. I. de C. V.	100.00
Ventika II, S.A.P. I. de C. V.	100.00
ESJ Renovable I, S. de R. L. de C. V.	90.00
ESJ Renovable II, S. de R. L. de C. V.	100.00
IEnova Renewable Holding I, B. V.	100.00
IEnova Renewable Holding II, B. V.	100.00
Energia Sierra Juarez 2, U. S., LLC	100.00
Energia Sierra Juarez 2, S. de R. L. de C. V.	100.00
Energia Sierra Juárez Holding, S. de R. L. de C. V.	100.00
Corporate segment:	
Sempra Servicios Energeticos, S. de R. L. de C. V.	99.87
Fundacion IEnova, A. C.	100.00

2.4. *Classification of costs and expenses*

The costs and expenses are presented according to their function because this is the practice of the industry in which the Company operates.

2.5. *Cash and cash equivalents*

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months as of their acquisition date, and are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the Consolidated Statements of Profit.

2.6. *Restricted cash*

Restricted cash comprises the amounts of cash of escrows used by the Company to make payments of certain operating costs, which are guaranteed until the completion of the projects. It also comprises the restricted cash under the project financing structure.

2.7. *Short-term investments*

Short-term investments consist mainly in money market funds, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks and are maintained for purposes other than operation.

2.8. *Natural gas inventories*

Liquefied natural gas inventory is recorded at the lower of cost or net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to sell.

2.9. *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the benefits. All other leases are classified as operating leases.

2.9.1. The Company as lessor

Amounts payable by lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is distributed in the accounting periods to reflect a constant periodic rate of return on the Company´s net investment with respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.9.2. Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statements of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy on borrowing costs (Please refer to Note 2.18). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that income incentives received for holding operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10. Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of the joint venture are incorporated in these Consolidated Financial Statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. Under the equity method, an investment in a joint venture is initially recognized in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and OCI of the joint venture.

When the Company’s share of losses of a joint venture exceeds the Company’s interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company’s net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Company’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit in the year in which the investment is acquired.

The requirements of IAS 39, *Financial instruments: recognition and measurement*, are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company’s investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets* , as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit (as a reclassification adjustment) when the equity method is discontinued.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Company reduces its ownership interest in a joint venture but the Company continues to use the equity method, the Company reclassifies to profit the proportion of the gain or loss that had previously been recognized in OCI regarding that reduction in ownership interest if that gain or loss would be reclassified to profit on the disposal of the related assets or liabilities.

When the Company conducts transactions with joint ventures, non-realized profit and losses are eliminated at the Company's ownership percentage in the joint venture.

2.11. Business combination and assets acquisition

A company shall determine whether a transaction or other event is a business combination by applying the definition of IFRS 3 *Business Combinations*, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the Company shall account for the transaction or other event as an asset acquisition.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits,* respectively,

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Company's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit. Amounts arising from interests in the acquiree prior to the acquisition date, that have previously been recognized in OCI are reclassified to profit where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.12. Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the Consolidated Statement of Profit. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit on disposal.

2.13. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the Consolidated Statements of Financial Position date. The CAs' cash inflows and outflows are classified as an operating activity in the Consolidated Statements of Cash Flows. (Please refer Note 20).

2.14. Property, plant and equipment

Property, plant and equipment are presented in the Consolidated Statements of Financial Position and recorded at acquisition cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Acquisition costs include labor, material costs and construction service agreements.

The Company recognizes decommissioning liabilities for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made.

Property, plant and equipment include major expenditures for improvements and replacements parts, which extend useful lives or increase capacity. Routine maintenance costs are expensed as incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. The buildings, equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write-off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit.

2.15. Intangible assets

Intangible assets acquired in a business combination and/or assets acquisition and recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination and/or assets acquisition are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.16. Impairment of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss related to TDM has been recognized in the Consolidated Statements of Profit.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, a gain or loss could arise once an actual sale is completed.

2.17. Non-current assets classified as held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Company generally borrows funds and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period. For a relationship designated as cash flow hedging, none of the effects of the derivative are included in capitalized interest.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit in the period in which they are incurred.

2.19. Employee benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement comprising actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the Consolidated Statement of Financial Position charged to the credit recognized in the Consolidated Statements of Profit and OCI in the period in which they occur.

Remeasurement recognized in OCI is reflected immediately in retained earnings and will not be reclassified to profit or loss. The Company presents service costs within administrative and other expenses in the Consolidated Statements of Profit. The Company presents net interest cost within finance costs in the Consolidated Statements of Profit. The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the present value of the defined benefit obligation as of the end of each reporting year.

2.19.1. Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service and are presented in other liabilities.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

2.19.2. Statutory employee profit sharing

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the Consolidated Statement of Profit and Other Comprehensive Income.

As result of the 2014 Income Tax Law, as of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

2.20. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.21. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit.

2.21.1. Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.21.2. Fair value

Fair value is defined in Note 2.2.b.

2.22. Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' ("FVTPL"), investments preserved at maturity financial assets 'available for sale' ("AFS") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at initial recognition. All purchases or sales of financial assets made routinely identified and removed based on the trade date. Purchases or sales regularly are those purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or custom in that market.

2.22.1. Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating the interest income or interest cost during the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition.

2.22.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the cost of revenues and in other gains and losses line items in the Consolidated Statements of Profit. Fair value is determined in the manner described in Note 2.2.b.

2.22.3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. The Company does not hold any held-to-maturity financial assets.

2.22.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and amounts due from unconsolidated affiliates) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.22.5. Impairment of financial assets

Financial assets are subject to impairment tests at the end of each reporting period. It is considered that financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Non-payment of interest or principal;
- It is probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except for accounts receivable where the carrying amount is reduced through an account of allowance for doubtful accounts. When a receivable is uncollectible, it is removed from the estimate. Subsequent recoveries of amounts previously written off become claims against the estimate. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss has been recognized related to TDM in the Consolidated Statements of Profit.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, a gain or loss could arise once an actual sale is completed.

2.22.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

If a financial asset is derecognized, the difference between the book value of the asset and the compensation received is recognized in the Consolidated Statements of Profit.

2.23. *Financial liabilities and equity instruments*

2.23.1. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.23.2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.23.3. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.23.3.1. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired mainly for the purpose of repurchasing it in the near term; or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of making profits in the short term; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial liabilities as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the Consolidated Statements of Profit. Fair value is determined as described in Note 24.

2.23.3.2. Other financial liabilities

Other financial liabilities (including borrowings, due to unconsolidated affiliates, trade payables and customers deposits) are subsequently measured at amortized cost using the effective interest method.

2.23.3.3. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit.

2.24. Derivative financial instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in Note 24.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

2.24.1. Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.24.2. Own use exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

2.25. Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivative with respect to foreign currency risk, either as fair value hedges, cash flow hedges, or hedges of a net investment in a transaction foreign. The hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

For its hedging instruments, the Company documents the relationship between the hedging instrument and the hedged item at the inception of the hedge relationship, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.25.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit in the years when the hedged item is recognized in profit, in the same line of the Consolidated Statements of Profit as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit.

2.25.2. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.26. Taxation

Income Tax expense represents the sum of the current and deferred tax.

2.26.1. Current tax

Current income tax is recognized in the results of the year in which it is incurred.

2.26.2. Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.26.3 Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.26.4 Tax on assets

The assets tax ("IMPAC") expected to be recoverable is recorded as a tax credit and is presented in the balance sheet in the deferred taxes line item.

2.27. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates; VAT.

2.27.1. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rights of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and,
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

The following revenue streams related to the sale of goods are recognized in accordance with the previous accounting policy as disclosed in more detail below:

- Sales of natural gas and the related costs are recognized upon the transfer of title, which coincides with the physical delivery of natural gas to customers; and,
- Power generation revenues are recognized when generated power is delivered.

2.27.2. Rendering of services

Revenue from service contracts to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Service fees included in the price of the products sold are recognized by reference to the proportion of the total cost of the service provided for the product sold; and,
- Revenue from contracts is recognized based on the rates provided to the extent incurred in working hours and direct costs.

The following revenue streams related to the rendering of services are recognized in accordance with the previous accounting policy as disclosed in more detail below:

- Storage and regasification capacity are recognized based on reservation and usage fees under terminal capacity agreements and nitrogen injection service agreements;

- Revenues and related costs and expenses from gas distribution and transportation are recognized when the distribution or transportation services are rendered;
- Revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas; and,
- Revenues and costs related to administrative and other services are recognized when such services are rendered according to the related service contracts.

2.27.3. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset´s net carrying amount on initial recognition.

2.27.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.1.

2.28. Foreign currencies

The Company's functional currency is the U.S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and Fundacion IEnova in the corporate segment, which is the Mexican Peso.

In preparing the Consolidated Financial Statements of each individual subsidiary of the Company, transactions in currencies other than the subsidiaries functional currency (U.S. Dollar or Mexican Peso) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in OCI and reclassified from equity to profit on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U.S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period. Profit amounts are translated at the rate of the transaction date, unless there are significant currency fluctuations during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other items of comprehensive income and accumulated in equity.

On the disposal of an operation with a Mexican Peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company´s accounting policies, the management of the Company required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Consolidated Financial Statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

3.1. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 3.2 below), that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

3.1.1. Finance leases

Management has determined that certain arrangements should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

3.1.2. Regulatory accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where a company has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2017, 2016 and 2015, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, *Regulatory deferral accounts* on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

3.1.3. Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

3.1.4. Own use exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts which are not used for operational purposes as derivative instruments. If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement.

Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

3.1.5. Determining whether an arrangement contains a lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

3.1.6. Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's Consolidated Statements of Financial Position.

3.2.1. Estimated useful lives of property, plant and equipment

As described in Note 2.14., the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Please refer to Note 14.1. for useful lives of property, plant and equipment.

3.2.2. Impairment of long-lived assets (goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

3.2.3. Asset decommissioning obligation

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the Consolidated Statements of Financial Position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

3.2.4. Valuation of financial instruments (fair value measurement)

The Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Please refer to Note 24. for detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3.2.5. Allowance for doubtful accounts

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

3.2.6. Recoverability of deferred tax assets

As mentioned in Note 25., the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

3.2.7. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 17., the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

3.2.8. Key sources of estimation uncertainty for IEnova Pipelines

Selected Valuation Methodology.

IEnova Pipelines is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

3.2.9. Key sources of estimation uncertainty for Ventika

Selected Valuation Methodology.

Based on the nature of the power facility and generally accepted industry practice, the Company relied on the Income Approach, specifically the Discounted Cash Flow ("DCF") method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive the fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to the fair value estimate derived utilizing the Income Approach. It is noted that the derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

4. Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, banks and investments in instruments in the money market funds, net of bank overdrafts.

Cash and cash equivalents at end of year as shown in the Consolidated Cash Flow Statement can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	As of		
	12/31/17	12/31/16	12/31/15
Cash and bank balances	$ 37,208	$ 24,918	$ 32,177
Short-term investments classified as cash equivalents	—	—	8,200
	$ 37,208	$ 24,918	$ 40,377

As of December 31, 2017 and 2016, the Company maintained $55.8 million and $51.4 million of restricted cash, respectively, as a current asset to make payments of certain operating costs for the execution of projects.

5. Trade and other receivables, net

	As of		
	12/31/17	12/31/16	12/31/15
Trade receivables	$ 93,299	$ 90,523	$ 32,895
Allowance for doubtful accounts (a)	(41)	(101)	(147)
	93,258	90,422	32,748
Other receivables	1,535	10,464	20,980
	$ 94,793	$ 100,886	$ 53,728

(a) For the Gas segment, ECO, has recognized an allowance for doubtful accounts of 80 percent against all receivables outstanding between 180 and 269 days and 100 percent against all receivables outstanding over 270 days, based on historical experience. Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting year for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

5.1. Age of receivables that are past due but not impaired

	As of		
	12/31/17	**12/31/16**	**12/31/15**
31-120 days	$ 61	$ 35	$ 12
121-180 days	21	7	5
181-270 days	5	3	2
Total	$ 87	$ 45	$ 19
Average age (days)	29	30	29

5.2. Movement in the allowance for doubtful accounts

	As of		
	12/31/17	**12/31/16**	**12/31/15**
Balance as of beginning of the year	$ (101)	$ (147)	$ (194)
Impairment losses recognized on receivables	(90)	(46)	(30)
Amounts written off during the year as uncollectible	152	65	48
Foreign exchange translation (loss) gains	(2)	27	29
Balance as of end of the year	$ (41)	$ (101)	$ (147)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. See Note 24.9. for more details of the Company's credit risk management and concentration of credit risk assessment.

5.3. Age of impaired trade receivables

	As of		
	12/31/17	**12/31/16**	**12/31/15**
181-270 days	$ (20)	$ (10)	$ (9)
Over 270 days	(21)	(91)	(138)
Total	$ (41)	$ (101)	$ (147)

6. Transaction and balances with unconsolidated affiliates

Transactions and balances between IEnova and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note, except for those transactions between continued and discontinued operations.

Transactions between continued and discontinued operations are not eliminated in consolidation. Any profit made from sales to external parties by the discontinued operations are presented outside continuing operations.

Accordingly, the Consolidated Statements of Profit present revenues from continuing operations as follows:

	Revenues / Cost of revenues		
		Year ended	
	12/31/17	**12/31/16**	**12/31/15**
Effects of continuing operation with GAP and IEnova Marketing	$ 73,256	$ 61,382	$ 84,838

6.1. Transactions and balances with unconsolidated affiliates

During the years ended December 31, 2017, 2016 and 2015, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues		
		Year ended	
	12/31/17	**12/31/16**	**12/31/15**
Discontinued operation – Sempra Gas & Power Marketing, LLC (“SG&PM”)	$ 130,192	$ 62	$ —
Sempra LNG International Holdings, LLC (“SLNGIH”)	103,043	101,998	51,683
SG&PM	10,722	—	—
DEN	6,761	—	—
Sempra International, LLC (“Sempra International”)	1,844	1,746	1,711
TAG	1,766	—	—
Servicios ESJ, S. de R. L. de C. V. (“SESJ”)	1,072	890	98
Southern California Gas Company (“SoCalGas”)	231	12	—
Sempra LNG ECA Liquefaction, LLC (“SLNGEL”)	217	2,026	1,676
Discontinued operation – SGEN	—	101,130	143,073
Discontinued operation – SESJ	—	353	428
ESJ	—	94	—
SLNGI	—	—	49,138

	Cost of revenue, administrative and other expenses		
		Year ended	
	12/31/17	12/31/16	12/31/15
SLNGI	$ 207,505	$ 178,145	$ 190,519
SG&PM	63,719	3,102	—
Discontinued operation – SG&PM	24,425	1,022	—
Sempra International	7,250	8,301	5,822
Sempra Infrastructure, LLC. (formerly Sempra U.S. Gas & Power, LLC "USGP")	6,936	6,930	6,709
SoCalGas	1,258	1,450	1,031
Sempra Midstream, Inc. ("Sempra Midstream")	492	688	746
Discontinued operations – SGEN	—	22,152	27,634
SGEN	—	3,183	4,380
Sempra Services Company, S. de R. L. de C. V. ("Sempra Services Company")*	—	—	128

* On December 15, 2015, this company was liquidated.

Included in the operational transactions are administrative services from affiliates by $7.3 million, $8.3 million and $5.9 million for the years ended December 31, 2017, 2016 and 2015, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

	Interest income		
		Year ended	
	12/31/17	12/31/16	12/31/15
IMG	$ 17,211	$ —	$ —
DEN	3,665	4,082	4,638
ESJ	775	1,122	1,450
Discontinued operations - SGEN	180	24	11
Sempra Servicios Mexico *	—	—	2

* On December 2015, this company was liquidated.

	Finance costs		
		Year ended	
	12/31/17	12/31/16	12/31/15
ISL	$ 3,491	$ 534	$ 485
Sempra Oil Trading Suisse ("SOT Suisse")	1,265	1,363	1,448
ISLA	1,174	1,618	1,455
POC	944	4	—
SEH	937	1,236	47
Discontinued operations - SEG (i)	332	831	—
DEN	143	46	—
TAG	50	—	—
Semco (ii)	—	364	—

i. On September 26, 2016, IEnova entered into a $800.0 million of U.S. Dollar-denominated loan with SEG, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest is payable on a monthly basis at LIBOR plus 110 Basis Points ("BPS") of outstanding balances. In October 2016, with the proceeds from the Global Offering, the Company repaid this loan including the corresponding interests.

ii. On September 26, 2016, IEnova entered into a $350.0 million of loan with Semco, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest was payable on a monthly basis at LIBOR plus 110 BPS of outstanding balances.

The following balances were outstanding at the end of the reporting period:

	Amounts due from unconsolidated affiliates		
		As of	
	12/31/17	12/31/16	12/31/15
SG&PM	$ 10,723	$ —	$ —
SLNGIH	9,162	6,456	9,685
TAG	4,289	—	—
SESJ	371	174	138
SLNGEL	34	53	668
SoCalGas	21	—	—
DEN	—	5,754	—
ESJ	—	539	51
SGEN *	—	—	17,066
	$ 24,600	$ 12,976	$ 27,608

* As of March 31, 2016, the amount was reclassified to assets held for sale.

	Amounts due to unconsolidated affiliates		
		As of	
	12/31/17	12/31/16	12/31/15
ISL (iii)	$ 275,188	$ 30,025	$ 30,000
SEH (iv)	132,800	—	219,600
POC (v)	102,020	20,004	—
SG&PM	17,525	491	—
SLNGI	16,360	11,135	12,220
Sempra International	226	582	470
SoCalGas	98	120	—
ISLA (iii)	—	160,091	90,000
SOT Suisse (vi)	—	38,460	—
Sempra Midstream	—	6	—
SGEN	—	—	360
	$ 544,217	$ 260,914	$ 352,650

iii. On March 2, 2015, IEnova entered into a $90.0 million and a $30.0 million U.S. Dollar-denominated credit facilities with ISLA and ISL, respectively, to finance working capital and for general corporate purposes. The agreements are nine-month term, with an option to be extended for up to four years. Interest is payable on a quarterly basis a rate of 1.98 percent per annum of outstanding balances.

In December 2016, the Company signed addendums modifying the initial contracts and the new characteristics are: the term was extended and was due and payable in full on December 15, 2017. The applicable interest shall be computed and paid on a quarterly basis at the rate of 1.75 percent per annum.

On December 27, 2016, IEnova entered into a $70.0 million U.S. Dollar-denominated affiliate revolving credit facility with ISLA, to finance working capital and for general corporate purposes. The credit facility has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at a rate of 1.75 percent per annum. Interest shall be paid on the last day of each calendar quarter.

On March 21, 2017, IEnova entered into an $85.0 million U.S. Dollar-denominated affiliate credit facility with ISL, to finance working capital and for general corporate purposes. The credit is a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

Effective June 1, 2017, ISLA was merged with and into ISL which is the surviving entity in the merger, the agreements conditions between ISL and IEnova remain the same.

On December 15, 2017, the Company signed addendums modifying the contracts terms over the $90.0 million, $30.0 million and $70.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and are due and payable in full on December 15, 2018, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

iv. On December 22, 2015, IEnova entered into a $219.6 million U.S. Dollar-denominated credit facility with SEH, to finance working capital and for general corporate purposes. The term of the agreement is for twelve months. Interest is payable on a quarterly basis at three-month LIBOR plus 0.17 percent of outstanding balances. On August 1, 2016, the Company paid $120.5 million, which includes the corresponding interest. In October 2016, with the proceeds from the Global Offering, the outstanding balance of $99.5 million was paid in full by the Company.

On August 23, 2017, IEnova entered into a $132.8 million U.S. Dollar-denominated affiliate credit facility with SEH, to finance working capital and general corporate purposes. The credit facility is for a six-month term. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 61 BPS per annum.

On February 6, 2018, IEnova signed an addendum modifying the contract term to August 22, 2018.

v. On December 27, 2016, IEnova entered into a $20.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at rate of 1.75 percent per annum.

On April 27, 2017, IEnova entered into a $19.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum.

On June 26, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum.

On September 29, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum.

On December 15, 2017, the Company signed addendum modifying the contract term over the $20.0 million U.S. Dollar-denominated revolving credit facilities with POC and the new characteristics are: the term was extended and are due and payable in full on December 15, 2018, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

On December 28, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 63 BPS per annum.

vi. During 2017, 2016 and 2015 related to the loan with SOT Suisse, the Company paid interest in the amount of $1.3 million, $1.4 million and $1.4 million, respectively. The loan matures in March 2017 and bear variable interest based on U. S. Treasury mid-term applicable federal rate plus 200 BPS (an average annual rate of 3.29 percent, 3.58 percent and 3.64 percent in 2017, 2016 and 2015, respectively).

Transactions with unconsolidated affiliates during 2017, 2016 and 2015 have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2017, and as of the date of this report, the nature and amount of transactions are consistent with previous years. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expenses have been recognized in the current or prior periods for bad or doubtful debts regarding the amounts owed by unconsolidated affiliates.

6.2. Loans to unconsolidated affiliates

	As of		
	12/31/17	**12/31/16**	**12/31/15**
IMG (i)	$ 487,187	$ —	$ —
ESJ	6,700	14,307	25,142
DEN	—	90,045	85,963
SGEN*	—	—	661
	$ 493,887	$ 104,352	$ 111,766

* As of March 31, 2016, the amount was reclassified to assets held for sale.

i. On April 21, 2017, IEnova entered into a loan agreement with IMG, providing a credit line in an amount of up to $9,042 million Mexican Pesos, the maturity date is March 15, 2022. The applicable interest rate is the Mexican Interbank Interest Rate (“TIIE”) at 91 days plus 220 BPS capitalized quarterly.

On December 6, 2017, the Company signed an addendum modifying the amount of the loan up to $14,168 million Mexican Pesos.

As of December 31, 2017, the outstanding balance amounts $9,615 million Mexican Pesos, including $283 million Mexican Pesos of capitalized interest.

6.3. Loans from unconsolidated affiliates

	As of 12/31/17	12/31/16	12/31/15
SOT Suisse (i)*	$ 38,460	$ —	$ 38,460
TAG (ii)	35,050	—	—
DEN	—	3,080	—
	$ 73,510	$ 3,080	$ 38,460

* This amount was reclassified in 2016 to current liabilities.

i. On March 17, 2017, IEnova entered into an amended agreement with SOT Suisse in order to extend the loan to seven years. The interest is payable on an annually basis at three-month LIBOR plus 180 BPS.

ii. On December 19, 2017, DEN entered into a $35.0 million U.S. Dollar-denominated affiliate credit facility with TAG, to finance working capital and general business purposes. The credit facility has a four years term. Interest of the outstanding balance is payable on a quarterly basis at six-month LIBOR plus 290 BPS per annum.

6.4. Compensation of key management personnel

Total compensation paid to key management personal was $10.3 million, $5.0 million and $8.8 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

There are no loans granted to the Company's key management personnel.

7. Natural gas inventories

	As of 12/31/17	12/31/16	12/31/15
Liquefied natural gas	$ 7,196	$ 6,083	$ 4,628

The cost of inventories recognized within cost of revenues were $194.0 million, $164.4 million and $190.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

For the years ended December 31, 2017, 2016 and 2015, no cost of revenue were recognized, due to write-downs of inventory to net realizable value.

8. Finance lease receivables

8.1. Finance lease receivables – Natural Gas Compression Plant

	As of 12/31/17	12/31/16	12/31/15
Current finance lease receivables	$ 308	$ 219	$ 156
Non-current finance lease receivables	13,827	14,135	14,354
	$ 14,135	$ 14,354	$ 14,510

Leasing arrangements.

The Company entered into a finance lease arrangement for one of its compression stations. The lease is denominated in U.S. Dollars. The term of the finance lease is 25 years.

8.1.1. Amounts receivables under finance leases

	Minimum lease payments			**Present value of minimum lease payments**		
		As of			**As of**	
	12/31/17	**12/31/16**	**12/31/15**	**12/31/17**	**12/31/16**	**12/31/15**
Not later than one year	$ 5,136	$ 5,136	$ 5,137	$ 308	$ 219	$ 156
Later than one year and not later than five years	21,828	22,458	22,458	3,464	3,403	2,422
More than five years	17,975	24,395	29,531	10,363	10,732	11,932
	44,939	51,989	57,126	14,135	14,354	14,510
Less: unearned finance income	(30,804)	(37,635)	(42,616)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 14,135	$ 14,354	$ 14,510	$ 14,135	$ 14,354	$ 14,510

No residual values of assets leased under finance lease at the end of the year are estimated.

The interest rate inherent in the finance lease is fixed at the contract date for the entire lease term.

The average effective interest rate contracted is approximately 34.5 percent per annum for 2017, 2016 and 2015. The receivable under finance lease balance as of December 31, 2017, 2016 and 2015, is neither past due nor impaired.

8.2. *Finance lease receivables – Los Ramones I Pipeline*

	As of	
	12/31/17	**12/31/16**
Current finance lease receivables	$ 3,665	$ 3,383
Non- current finance lease receivables	567,405	571,070
	$ 571,070	$ 574,453

Leasing arrangements.

The Company entered into a finance lease arrangement for one of its natural gas pipelines and compression stations. The lease is denominated in U.S. Dollars. The term of the finance lease is 25 years.

8.2.1. Amounts receivables under finance leases

	Minimum lease payments		Present of minimum lease payments	
	As of		As of	
	12/31/17	12/31/16	12/31/17	12/31/16
Not later than one year	$ 87,104	$ 87,639	$ 3,665	$ 3,384
Later than one year and not later than five years	424,616	428,582	28,108	23,997
More than five years	901,512	984,650	539,297	547,072
	1,413,232	1,500,871	571,070	574,453
Less: unearned finance income	(842,162)	(926,418)	n/a	n/a
Present value of minimum lease payments receivable	$ 571,070	$ 574,453	$ 571,070	$ 574,453

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The interest rate inherent in the finance lease is fixed at the contract date for the entire lease term.

The average effective interest rate contracted is approximately 15.2 percent per annum for 2017 and 2016. The receivable under finance lease balance as of December 31, 2017 and 2016 is neither past due nor impaired.

8.3. *Finance lease receivables – Ethane Pipeline*

	As of	
	12/31/17	12/31/16
Current finance lease receivables	$ 4,153	$ 3,553
Non-current finance lease receivables	360,952	365,106
	$ 365,105	$ 368,659

Leasing arrangements.

The Company entered into a finance lease arrangement for its ethane pipeline. The lease is denominated in U.S. Dollars.

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI Braskem-IDESA to Cangrejera (Veracruz), through a 20-inch and 4 km length pipeline. The term of the finance lease is 20.5 years.

Segment II. Transports ethane from Nuevo Pemex (Tabasco) to Cactus (Chiapas) through a 16-inch and 15 km length pipeline and from Cactus to the Ethylene XXI Complex Braskem-IDESA through a 24-inch and 133.5 km length pipeline. The term of the finance lease is 20.5 years.

Segment III. Transports liquid ethane from Ciudad Pemex to Nuevo Pemex (Tabasco) through a 20-inch and 73.5 km length pipeline. The term of the finance lease is 21 years.
The breakdown as of December 31, 2017 of this finance lease is as follows.

	Amount
Segment I	$ 31,631
Segment II	186,030
Segment III	147,444
Total	$ 365,105

8.3.1. Amounts receivables under finance leases

	Minimum lease payments		Present of minimum lease payments	
	As of		As of	
	12/31/17	12/31/16	12/31/17	12/31/16
Not later than one year	$ 55,393	$ 55,976	$ 4,153	$ 3,553
Later than one year and not later than five years	264,235	268,951	33,512	28,779
More than five years	388,982	439,651	327,440	336,327
	708,610	764,578	365,105	368,659
Less: unearned finance income	(343,505)	(395,919)	n/a	n/a
Present value of minimum lease payments receivable	$ 365,105	$ 368,659	$ 365,105	$ 368,659

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The average effective interest rate contracted is approximately 16 percent for segment I and 14 percent for segments II and III as of December 31, 2017 and 2016.

The receivable under finance lease balance as of December 31, 2017 and 2016, is neither past due nor impaired.

9. Other assets

		As of	
	12/31/17	12/31/16	12/31/15
Veracruz marine terminal initial bidding quota (Refer to Note 1.2.10.e.)	$ 28,180	$ —	$ —
Prepayments	9,620	9,495	5,782
Pipeline interconnection rights	1,637	1,792	1,938
IMPAC recoverable	1,455	1,698	2,450
Natural gas imbalance	974	320	243
Pipeline integrity system	593	—	—
Prepaid land leases	526	839	101
	$ 42,985	$ 14,144	$ 10,514
Current	$ 10,327	$ 9,289	$ 8,576
Non–current	32,658	4,855	1,938
	$ 42,985	$ 14,144	$ 10,514

10. Investment in joint ventures

10.1. IEnova Pipelines

Until September 26, 2016, the Company owned a 50 percent interest in IEnova Pipelines, a joint venture with Pemex TRI a Pemex subsidiary (Please refer to Note 11.1.). IEnova Pipelines operates three natural gas pipelines, five natural gas compression stations, one LPG system and one ethane pipeline, in the states of Chiapas, Chihuahua, Nuevo Leon, Tabasco, Tamaulipas and Veracruz and one LPG storage facility in the state of Jalisco, Mexico.

Beginning September 27, 2016, the Company fully consolidates IEnova Pipelines.

IEnova Pipelines Condensed Consolidated Financial Statements and the Company's equity method investment are summarized as follows:

		As of 12/31/15
Cash and cash equivalents	$	22,080
Short-term investments		10,780
Other assets		55,383
Current assets		88,243
Finance lease receivables		952,201
Property, plant and equipment, net		320,079
Investments in joint ventures		131,338
Other assets		1,727
Deferred income tax asset		12,314
Non-current assets		1,417,659
Total assets	$	1,505,902
Current liabilities	$	133,730
Non-current liabilities		662,307
Total liabilities		796,037
Total members' equity	$	709,865
Share of members' equity	$	354,933
Goodwill		64,943
Carrying amount of investment in IEnova Pipelines	$	419,876

IEnova Pipelines Condensed Consolidated Statements of Profit is as follows:

		Period ended 09/26/16		Year ended 12/31/15
Revenues	$	199,996	$	249,424
Operating, administrative and other expenses		(60,174)		(66,539)
Finance costs		(20,989)		(28,673)
Income tax expense		(53,409)		(64,307)
Share of profit (loss) of joint venture, net of income tax		15,417		(6,936)
Profit for the period / year	$	80,841	$	82,969
Share of profit of IEnova Pipelines	$	40,421	$	41,485

10.2. ESJ

ESJ, the joint venture formed between IEnova and InterGen, N. V. ("InterGen"), started operations in June 2015.

As of December 31, 2017, 2016 and 2015, the Company's remaining 50 percent interest in ESJ is accounted for under the equity method. ESJ Condensed Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As of		
	12/31/17	**12/31/16**	**12/31/15**
Cash and cash equivalents	$ 2,785	$ 9,601	$ 12,930
Other assets	18,479	15,201	21,937
Current assets	21,264	24,802	34,867
Deferred income tax assets	4,778	5,413	6,534
Other assets	2,795	2,650	12,347
Property, plant and equipment, net	252,856	264,468	276,352
Non-current assets	260,429	272,531	295,233
Total assets	$ 281,693	$ 297,333	$ 330,100
Current liabilities	$ 17,509	$ 17,777	$ 7,248
Non-current liabilities	231,048	255,070	306,635
Total liabilities	$ 248,557	$ 272,847	$ 313,883
Total members' equity	$ 33,136	$ 24,486	$ 16,217
Share of members' equity	$ 16,568	$ 12,243	$ 8,108
Goodwill	12,121	12,121	12,121
Carrying amount of investment in ESJ	$ 28,689	$ 24,364	$ 20,229

ESJ´s Condensed Consolidated Statements of Profit is as follows:

	Year ended		
	12/31/17	**12/31/16**	**12/31/15**
Revenues	$ 46,570	$ 44,283	$ 29,227
Operating, administrative and other expenses	(22,147)	(20,773)	(13,491)
Finance costs	(15,929)	(16,731)	(9,426)
Other gains, net	13	221	—
Income tax expenses	(1,340)	(1,886)	(4,642)
Profit for the year	$ 7,167	$ 5,114	$ 1,668
Share of profit of ESJ	$ 3,584	$ 2,557	$ 834

a) *Project financing for the ESJ project*. On June 12, 2014, ESJ entered into a $239.8 million project finance loan for the construction of the wind project with five banks: Mizuho as coordinating lead arranger, the North American Development Bank ("NADB") as technical and modeling bank, Nacional Financiera, S. N. C. Institucion de Banca de Desarrollo ("NAFINSA"), NORD/LB and SMBC as lenders.

On June 30, 2015, ESJ converted the construction loans into 18-year term loans. The credit facilities mature on June 30, 2033, with payments due on a semi-annual basis (each June 30 and December 30 until the final maturity date), starting on December 30, 2015. The credit facilities bear interest at LIBOR plus the applicable margin.

Years	**LIBOR applicable margin**
June 2015 – June 2019	2.375%
June 2019 – June 2023	2.625%
June 2023 – June 2027	2.875%
June 2027 – June 2031	3.125%
June 2031 – June 2033	3.375%

As per the financing agreement, the ability to make withdrawals ended on the term conversion date June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of $239.8 million. The debt outstanding is $216.9 million and the breakdown is as follows:

	Debt balance
MIZUHO	$ 48,685
SMBC	48,685
NORD/LB	48,685
NAFINSA	35,407
NADB	35,407
	$ 216,869

b) *Interest rate swaps.* To partially mitigate its exposure to interest rate changes associated with the term loan, ESJ entered into floating-to-fixed interest rate swaps for 90 percent of the ESJ project financing loan amount. There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014 and an effective date of June 30, 2015, the date of conversion to a term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.

c) *Financing of the project's VAT with Santander*. On June 12, 2014, ESJ entered into a line of credit with Santander and on February 23, 2015 there was an amendment to increase the line for up to $501.0 million Mexican Pesos (approximately $35.0 million historical U.S. Dollar equivalent). Interest on each withdrawal accrued interest at the TIIE plus 145 BPS payable on a semi-annual basis. The credit line under this contract was used to finance the VAT on the ESJ project. As of December 23, 2015, ESJ withdrawn $472.6 million Mexican Pesos of the credit line. On December 23, 2015 ESJ repaid and canceled the total credit facility.

d) *Other disclosures.* The member's agreement provides certain restrictions and benefits to the sale of the membership interest in ESJ. The agreement establishes that capital calls that are to be contributed on a pro rata basis by the members. CSJ and its joint venture partner have provided guarantees of payment of amounts due by ESJ and its subsidiaries under the wind turbine supply agreement with Vestas WTG Mexico, S. A. de C. V. The guarantees are immaterial as of December 31, 2017, 2016 and 2015.

10.3. IMG

The joint venture formed between IEnova and TransCanada, for the construction of the South Texas - Tuxpan marine pipeline, whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest of the project.

As of December 31, 2017 and 2016, the Company's 40 percent interest in IMG is accounted for under the equity method. IMG Condensed Consolidated Financial Statements and the Company's equity method investment are summarized as follows:

	As of	
	12/31/17	**12/31/16**
Cash and cash equivalents	$ 58,284	$ 128,110
Value added tax receivable	195,350	12,264
Other assets	434	683
Total current assets	254,068	141,057
Total non-current assets	1,653,554	135,494
Total assets	$ 1,907,622	$ 276,551
Current liabilities	$ 176,771	$ 27,916
Long term debt	1,222,973	—
Deferred income tax liabilities	34,209	2,678
Total non-current liabilities	1,257,182	2,678
Total liabilities	1,433,953	30,594
Total members' equity	$ 473,669	$ 245,957
Share of members' equity	189,468	98,383
Guarantees	5,018	—
Share of members' equity and carrying amount of investment in IMG	$ 194,486	$ 98,383

IMG´s Condensed Consolidated Statements of Profit is as follows:

	Year ended	
	12/31/17	**12/31/16**
Finance income (costs), net	$ 78,082	$ (467)
Other income (expense), net	692	(1,646)
Income tax expense	(31,233)	(3,122)
Profit (loss) for the year	$ 47,541	$ (5,235)
Share of profit (loss) of IMG	$ 19,016	$ (2,094)

a) *Project financing for the IMG project.* As of December 31, 2017, the project resources for the design and construction of the marine pipeline have been funded with capital contributions of its members and loans.

On April 21, 2017, IMG entered into two revolving credit agreements with IEnova and TransCanada, parent entities, by $9,042 million Mexican Pesos and $13,563 million Mexican Pesos, respectively.

On December 6, 2017, IEnova and TransCanada renegotiated the credit line of such credit facility agreements for an amount up to $14,168 million Mexican Pesos and $21,252 million Mexican Pesos, respectively. Loans accrue an annual interest rate of TIIE plus 220 BPS.

Loan balances for the year ended on December 31, 2017 with IEnova is $9,615 million Mexican Pesos.

IEnova and TransCanada have each provided guarantees to third parties associated with the construction of IMG's Sur de Texas-Tuxpan natural gas marine pipeline. IEnova's share of potential exposure of the guarantees was estimated to be $210.0 million and will terminate upon completion of all guaranteed obligations. The guarantees have terms ranging to 2020.

As of December 31, 2017, IEnova recognized an increase to the equity method investment for the amount of $5.0 million, fair value of the guarantees granted.

10.4. DEN

Until October 31, 2017 the Company owned a 50 percent interest in DEN, a joint venture with Pemex TRI.

In November, 2017, the Company fully consolidated DEN.

DEN's Condensed Consolidated Financial Statements of Financial Position and the Company's equity method investment, are summarized as follows:

	As of	
	10/31/17	**12/31/16**
Cash and cash equivalents	$ 17,257	$ 8,819
Due from unconsolidated affiliates	4,135	4,012
Other assets	7,166	4,278
Total current assets	28,558	17,109
Deferred income tax assets	10,361	17,364
Investments in join ventures	195,981	155,327
Property, plant and equipment, net	1,795	1,689
Total non-current assets	208,137	174,380
Total assets	$ 236,695	$ 191,489
Current liabilities	$ 68	$ 646
Non-current liabilities	194,010	185,627
Total liabilities	$ 194,078	$ 186,273
Total members' equity	$ 42,617	$ 5,216
Share of members' equity and carrying amount of investment in DEN	$ 21,309	$ 2,608

DEN´s Condensed Consolidated Statements of Profit is as follows:

	Period ended 10/31/17	Year ended 12/31/16
Revenues	$ 18,532	$ 5,623
Operating, administrative and other expenses	(7,185)	(5,310)
Finance costs	(7,394)	(2,126)
Other losses	(202)	(341)
Income tax (expense) benefit	(7,003)	3,464
Share of profit of joint venture, net of income tax	41,551	2,604
Profit for the period / year	$ 38,299	$ 3,914
Share of profit of DEN	$ 19,149	$ 1,957

On November 15, 2017, IEnova completed the acquisition of Pemex's TRI 50 percent interest in DEN.

In November, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. Please refer to Note 11.3.

10.5. TAG

TAG, together with TPN a joint venture between DEN and Pemex TRI, and a consortium comprised of BlackRock and First Reserve, own Los Ramones Norte pipeline, which began operations in February 2016.

In November, 2017, the Company increased its indirect participation in TAG from 25 percent to 50 percent. Please refer to Note 11.3.

As of December 31, 2017, the interest in TAG is accounted for under the equity method. TAG's Condensed Consolidated Statement of Financial Position and the Company's equity method investment are summarized as follows:

	As of 12/31/17
Cash and cash equivalents	$ 81,823
Other assets	22,293
Total current assets	104,116
Due from unconsolidated affiliates	70,698
Finance lease receivables	1,431,703
Other assets	16,466
Property, plant and equipment, net	15,471
Total non-current assets	1,534,338
Total assets	$ 1,638,454
Current liabilities	$ 58,023
Non-current liabilities	1,178,616
Total liabilities	$ 1,236,639
Total members' equity	$ 401,815
Share of members' equity and carrying amount of investment in TAG	$ 200,907
Equity method goodwill	99,020
Total amount of the investment in TAG	$ 299,927

TAG´s Condensed Consolidated Statement of Profit is as follows:

		For the period of 11/01/17 to 12/31/17
Revenues	$	32,411
Operating, administrative and other expenses		(6,876)
Finance costs		(10,517)
Other gains		217
Income tax expense		(9,378)
Profit for the period	$	5,857
Share of profit of TAG	$	2,928

a) *TAG Project financing*

On December 19, 2014, TAG, (subsidiary of DEN), entered into a credit contract with Santander as lender, administrative agent and collateral agent, with the purpose of financing the engineering, procurement, construction and commissioning of the gas pipeline.

During 2016 and 2015, there were amendments to the credit contract in order to include additional banks as lenders. The total amount of the credit is $1,274.5 million, divided in tranches: i) long tranche, up to $701.0 million, ii) short tranche up to $513.3 million and iii) the letter of credit tranche for debt service reserve up to $60.2 million.

The credit facilities mature in December 2026 and December 2034 for the short and long tranche loan respectively, with payments due on a semi-annual basis. The credit facilities bear interest at LIBOR plus the spread.

Years	Applicable margin BPS
1st disbursement - (System Commercial Operation Date)	250
0-4	265
5-9	300
10-14	325
15-until credit maturity	350

As of December 31, 2017 the total outstanding loan is $1,155.4 million, with its respective maturities. TAG hedged a portion of the loans tied to the interest rate risk through an interest rate swap, by changing the variable rate for a fixed rate.

The loans mentioned above contain restrictive covenants, which require TAG to maintain certain financial ratios and limits dividend payments, loans and obtaining additional financing. TAG met such covenants as of December 31, 2017.

Long-term debt due dates are as follows:

Year	Amount
2017	$ 30
2018	59
2019	59
2020	59
Thereafter	949
Total	$ 1,156

b) *Interest rate swaps.* In December 2015, TAG contracted derivative instruments in order to hedge the risk of variable interest rates originated from LIBOR. The fixed contracted interest rate is 2.5 percent for the debt maturing at December 2016 and 2.9 percent for the debt maturing at December 2034.

c) *Exchange rate forwards.* TAG entered into forward contracts with five banks to exchange Pesos for Dollars of a portion of the projects revenues for 2016; maturing through 2016 and in the first quarter of 2017. Additionally, in September 2016, TAG entered into forward contracts to exchange Mexican Pesos for U.S. Dollars of a portion of the projects' revenues for 2017; maturing through 2017 and in the first quarter of 2018.

d) *Debt for financing VAT.* On December 19, 2014, TAG signed a credit agreement for financing VAT with Santander NAFINSA, Banco Nacional de Comercio Exterior, S. N. C. Institucion de Banca de Desarrollo ("BANCOMEXT") and Banco del Bajio, S. A., Institucion de Banca Multiple ("Ban Bajio"). The amount of the credit line was for $3,680.9 million Mexican Pesos. On September 29, 2017, the VAT line of credit was paid in full for a total amount including interest of $206.4 million Mexican Pesos. (US$11.3 million).

11. Business combinations and asset acquisition

11.1. *IEnova Pipelines, business combination*

On September 26, 2016, IEnova acquired the remaining 50 percent of IEnova Pipelines shares at a value of $1,143.8 million, which was recorded using the acquisition method as it obtained control over IEnova Pipelines as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. Subsidiaries acquired

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
IEnova Pipelines	Gas transportation	September 26, 2016	50%	$1,143,834

b. *Consideration transferred*

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within “Operating, administrative and other expenses” in the Consolidated Statements of Profit.

c. ***Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions***

		As of 9/26/16
Fair value of business combination:		
Cash consideration (fair value of total consideration)	$	1,143,834
Total fair value of business combination	$	2,287,668
Cash and cash equivalents		66,250
Trade and other receivables		66,739
Finance lease receivables		945,104
Property, plant and equipment, net		309,186
Other assets		933
Current liabilities		(112,980)
Non-current liabilities (1)		(484,572)
Total identifiable, net assets		1,275,232
Goodwill	$	1,497,008

(1) Includes $364.0 million related to bank loans.

None of the goodwill is expected to be deductible for tax purposes.

Key sources of estimation uncertainty

Selected Valuation Methodology.

IEnova Pipelines is a regulated business, that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

d. ***Net cash flow from acquisition of subsidiaries***

		As of 09/26/16
Consideration paid in cash	$	1,143,834
Less: balances of cash and cash equivalents acquired		(66,250)
Consideration paid in cash, net	$	1,077,584

e. ***Impact of acquisitions on the results of the period***

The results of the year ended December 31, 2016, includes a gain of $673.1 million for the excess of the acquisition-date fair value of IEnova's previously held equity interest in IEnova Pipelines over the carrying value of that interest, included as remeasurement of equity method investment on the Consolidated Statements of Profit.

11.2. ***Ventika, business combination***

On December 14, 2016, IEnova acquired the 100 percent of the shares of Ventika at a value of $434.7 million, which was recorded using the acquisition method as it obtained control over Ventika as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. Subsidiaries acquired

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Ventika	Wind Generation Facility	December 14, 2016	100%	$434,688

b. *Consideration transferred*

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit.

c. *Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions*

	As of 12/14/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	$ 309,724
Total fair value of business combination	$ 309,724
Cash and cash equivalents	24
Trade and other receivables, net	14,939
Restricted cash	68,299
Other assets	51,216
Property, plant and equipment, net	673,410
Intangible assets	154,144
Current liabilities	(145,912)
Non-current liabilities	(621,825)
Total identifiable, net assets	$ 194,295
Goodwill	$ 115,429

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded measurement period adjustments that resulted in a net decrease to goodwill and an increase in deferred tax assets of $13.7 million, respectively.

d. *Net cash flow used in acquisition of subsidiaries*

	As of 12/14/16
Consideration paid in cash	$ 434,688
Less: balances of cash and cash equivalents acquired	(24)
Consideration paid in cash, net	$ 434,664

11.3. *DEN, asset acquisition*

On November 15, 2017, IEnova completed the acquisition of Pemex TRI's 50 percent interest in DEN, a joint venture that holds a 50 percent interest in the Los Ramones Norte pipeline, through TAG, for a purchase price of $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 millions of intercompany debt. This acquisition increases IEnova's ownership interest in TAG from 25 percent to 50 percent. IEnova Pipelines previously accounted for its 50 percent interest in DEN as an equity method investment. In November, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. DEN will continue to account for its interest in TAG as on equity method investment.

This transaction was accounted as an asset acquisition because DEN does not meet the definition of a business, since it does not have substantive inputs or processes. DEN's most significant asset is its equity method investment in TAG, the entity that owns the Los Ramones Norte pipeline. The excess consideration over the fair value of assets acquired and liabilities assumed was allocated on a relative fair value basis between the equity investment in TAG and an acquired intangible asset (Please refer to Note 15).

a. ***Assets acquisition***

Entity	Main activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
DEN	Holds equity investment in TAG	November 15, 2017	50%	$164,752

Assets acquired and liabilities recognized at the acquisition date

		As of 11/15/17
Fair value of assets acquisition:		
Cash paid	$	164,752
Acquisition costs		143
Total fair value of assets acquisition	$	164,895
Cash and cash equivalents		17,257
Trade and other receivables		12,284
Deferred income tax assets		10,481
Investment in TAG		295,002
Property, plant and equipment, net		1,795
Other intangible assets		44,566
Current liabilities		(99,343)
Non-current liabilities		(95,839)
Total identifiable, net assets	$	186,203
Less: Carrying value of equity interest in DEN immediately prior to acquisition		(21,308)
Total fair value of assets acquisition	$	164,895

Valuation of DEN's Assets and Liabilities. DEN is substantially comprised of two assets. The first asset is DEN's equity method investment in TAG. The second asset is an acquired intangible asset, with an amortization period of 23 years, representing a favorable Operation & Maintenance ("O&M") agreement. Both assets were valued using an income approach. For substantially all other assets and liabilities, the Company determined that historical carrying value approximates fair value due to their short-term nature.

b. ***Net cash flow from acquisition of assets***

		As of 11/15/17
Consideration paid in cash	$	164,752
Plus: Acquisition costs paid		143
Less: balances of cash and cash equivalents acquired, net of acquisition costs		(17,257)
Consideration paid in cash, net	$	147,638

12. Assets classified as held for sale and discontinued operations

(a) As mentioned in Note 1.2.3., the Company's management approved a plan to market and sell TDM, a 625 MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. Since March 31, 2016, the assets and liabilities were classified under current assets and liabilities held for sale. The results of TDM are presented within discontinued operations.

(b) Details of the discontinued operations are provided as follows:

				Year ended		
		12/31/17		12/31/16		12/31/15
Revenues	$	129,634	$	101,547	$	143,500
Cost of revenues		(101,640)		(85,446)		(114,209)
Operating, administrative and other expenses		(26,189)		(17,515)		(22,354)
Impairment		(63,804)		(136,880)		—
Depreciation and amortization		—		(2,222)		(15,212)
Interest income		—		25		42
Finance costs		(595)		(254)		(244)
Other gains (losses), net		623		(1,396)		(151)
Income tax benefit (expense) *		5,567		29,809		(6,169)
Loss for the year	$	(56,404)	$	(112,332)	$	(14,797)

* The Company does not recognize a deferred tax liability related to the undistributed earnings, because it currently does not expect these earnings to be taxable in the near future, for that reason the deferred tax liability recorded in 2016, amounted to $5.3 million was derecognized. This effect is shown in the Consolidated Statements of Profit in the line item of "(Loss) profit for the year from discontinued operations, net of income tax".

During 2017 the Company has not recognized a deferred tax asset in the amount of $15.2 million generated for the deductible temporary differences between book value and tax basis as a result of the decision to sale the partnership interest in TDM.

Additionally, the Company has not recognized a deferred tax asset in the amount of $25.9 million generated for the deductible temporary differences between book value and tax basis of TDM.

The Company considers that there are no sufficient taxable profits available to recognize all or part of the deferred tax asset.

				Year ended		
		12/31/17		12/31/16		12/31/15
Loss per share:						
From discontinues operations	$	(0.04)	$	(0.09)	$	(0.01)

(c) Assets and liabilities held for sale corresponding to TDM are as follows:

	As of	
	12/31/17	12/31/16
Cash and cash equivalents	$ —	$ 434
Other assets	64,263	32,813
Total current assets	64,263	33,247
Deferred income tax assets	201	193
Other assets	1,515	1,125
Carbon allowance	2,272	22,089
Property, plant and equipment, net (1)	79,939	134,633
Total non-current assets	83,927	158,040
Total assets	$ 148,190	$ 191,287
Current liabilities	$ 54,336	$ 7,974
Non-current liabilities	8,186	27,477
Total liabilities	$ 62,522	$ 35,451

(1) As a result of the allocation as assets held for sale, the Company carried out a review of the recoverable amount of these assets. The Company estimated the fair value less estimated costs to sell of property, plant and equipment based on available market appraisals or using other valuation techniques.

As a result of the allocation in assets held for sale property, made during this year, the Company carried out a review of the recoverable amount of these assets. The review led to the recognition of an after-tax impairment loss of $63.8 and $95.8 million during 2017 and 2016 respectively, which have been recognized in the Consolidated Statements of Profit. The Company also estimated the fair value less costs of disposal of property, plant and equipment, which is based on the recent market prices of assets with similar age and obsolescence.

	Year ended	
	12/31/17	12/31/16
Cash flows from discontinued operations:		
Net cash flows provided by (used in) operating activities	$ 10,084	$ (868)
Net cash flows used in investing activities	(10,031)	(2,198)
Net cash flows used in financing activities	(53)	(256)
Net cash flows	$ —	$ (3,322)

TDM meets the criteria established in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to maintain the classification as assets and liabilities held for sale and discontinued operation as of December 31, 2017 and 2016.

13. Goodwill

	As of 12/31/17	12/31/16	12/31/15
Cost	$ 1,638,091	$ 1,638,091	$ 25,654

There are no accumulated impairment losses. The breakdown of goodwill is as follows:

Company	As of 12/31/17	12/31/16	12/31/15
IEnova Pipelines	$ 1,497,008	$ 1,497,008	$ —
Ventika	115,429	115,429	—
IGM	25,654	25,654	25,654
Total	$ 1,638,091	$ 1,638,091	$ 25,654

Allocation of goodwill to cash-generating units

IEnova Pipelines

Management expects the IEnova Pipelines acquisition to have strategic benefits, including opportunities for expansion into other infrastructure projects and larger platform and presence in Mexico to participate in energy sector. As such, IEnova Pipelines goodwill is tested at the Company's Cash Generated Unit ("CGU"), IEnova Pipelines.

The Company used DCF analysis to determine the fair value of the CGU. The DCF includes cash flows through contracted period of the pipelines and the gas storage terminal exit multiple of 4.3x. The discount rate utsed was the weighted average cost of capital ("WACC") calculated in 7.2 percent. Under this approach, the value in use was greater to the carrying value. Based on that no impairment was determined.

Ventika

There are no significant changes in Ventika's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management initial projections, b) there has not been a material change in macroeconomic indicators, and c) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

In the case of Ventika, the Company considered appropriate to use cash flows from the acquisition model and reviewed consistency with the actual results in 2017. The discount rate used was the WACC of 10.1 percent. Under this approach, the value in use is greater to the carrying value. Based on that no impairment was determined.

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded a measurement period adjustment that resulted in a net decrease to goodwill of $13.7 million. (Please refer to Note 11.2.c.).

IGM

Goodwill has been allocated for impairment testing purposes to IEnova Gasoductos Mexico's cash-generating unit, which is included in the Gas segment.

The recoverable amount of this cash-generating unit is determined based on a 10-year DCF analysis of IEnova Gasoductos Mexico's projected results. The DCF for 2017, 2016 and 2015, was calculated based on a long-term unlevered cash flow forecast using a discount rate of 9 percent, which was the same rate used at the acquisition date.

There are no significant changes in IEnova Gasoductos Mexico's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management's initial projections, b) the changes on the macroeconomic indicators may have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for Mexico), c) changes in the regulatory environment have not had adverse effect on the Company's operations and, d) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

Although, the Company's management believes the current discount rate may be lower as market rates have declined since the acquisition, the discount rate used as of the acquisition date was deemed to be a reasonable rate for goodwill impairment testing purposes.

14. Property, plant and equipment, net

		As of	
	12/31/17	**12/31/16**	**12/31/15**
Carrying amounts of:			
Buildings and plants	$ 4,017,315	$ 3,110,525	$ 2,586,775
Equipment	28,674	96,017	86,965
Other assets	117,279	59,670	38,843
	4,163,268	3,266,212	2,712,583
Accumulated depreciation and amortization	(545,148)	(433,074)	(557,563)
Land	82,389	82,404	76,524
Properties under construction	28,947	698,543	364,296
	$ 3,729,456	$ 3,614,085	$ 2,595,840

	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Cost						
Balance as of January 1, 2015	$ 74,988	$ 2,287,706	$ 64,572	$ 415,211	$ 32,948	$ 2,875,425
Additions	1,542	332,691	22,697	(50,048)	8,764	315,646
Disposals	—	(2,738)	—	—	(1,317)	(4,055)
Effect of foreign currency translation	(6)	(25,275)	(304)	(867)	(1,552)	(28,004)
Revisions and additions to decommissioning liability	—	(5,609)	—	—	—	(5,609)
Balance as of December 31, 2015	76,524	2,586,775	86,965	364,296	38,843	3,153,403
Assets held for sale	(674)	(436,077)	(7,525)	(533)	(2,935)	(447,744)
Additions	282	15,523	17,085	332,682	17,386	382,958
Business combination IEnova Pipelines (Refer to Note 11.1.)	6,026	296,520	—	—	8,750	311,296
Business combination Ventika (Refer to Note 11.2.)	252	673,531	—	—	—	673,783
Disposals	—	(1,021)	(164)	—	(738)	(1,923)
Effect of foreign currency translation	(6)	(26,882)	(344)	(724)	(1,636)	(29,592)
Revisions and additions to decommisioning liability	—	4,978	—	—	—	4,978
Balance as of December 31, 2016	82,404	3,113,347	96,017	695,721	59,670	4,047,159
Additions	13	886,917	192	(705,173)	33,318	215,267
Assets acquisition DEN (Refer to Note 11.3)	—	—	203	—	1,592	1,795
Disposals	(30)	(7,501)	(59)	(325)	(2,146)	(10,061)
Effect of foreign currency translation	2	(10,662)	—	16,013	837	6,190
Revisions and additions to decommisioning liability	—	10,814	—	—	—	10,814
Other	—	24,400	(67,679)	22,711	24,008	3,440
Balance as of December 31, 2017	$ 82,389	$ 4,017,315	$ 28,674	$ 28,947	$ 117,279	$ 4,274,604
Accumulated depreciation						
Balance as of January 1, 2015	$ —	$ (468,778)	$ (8,545)	$ —	$ (20,363)	$ (497,686)
Eliminated on disposals of assets	—	870	(599)	—	183	454
Depreciation expense	—	(62,203)	(1,635)	—	(3,844)	(67,682)
Effect of foreign currency translation	—	6,269	173	—	909	7,351
Balance as of December 31, 2015	—	(523,842)	(10,606)	—	(23,115)	(557,563)
Assets held for sale	—	178,795	—	—	1,622	180,417
Eliminated on disposals of assets	—	271	111	—	270	652
Depreciation expense	—	(57,741)	(2,241)	—	(3,468)	(63,450)
Effect of foreign currency translation	—	6,732	186	—	886	7,804
Other	—	(934)	—	—	—	(934)
Balance as of December 31, 2016	—	(396,719)	(12,550)	—	(23,805)	(433,074)
Eliminated on disposals of assets	—	890	146	—	1,572	2,608
Depreciation expense	—	(102,805)	(911)	—	(6,745)	(110,461)
Effect of foreign currency translation	—	(1,314)	(234)	—	(666)	(2,214)
Other	—	(3,379)	3,579	—	(2,207)	(2,007)
Balance as of December 31, 2017	$ —	$ (503,327)	$ (9,970)	$ —	$ (31,851)	$ (545,148)

ECA acquired 19,452,209 square meters of land of which 627,614 were used for the construction of the LNG Terminal. The remaining land is used as buffer and access zones in accordance with the authorization issued by the Mexican Natural Resources and Environmental Ministry (Secretaria de Medio Ambiente y Recursos Naturales, "SEMARNAT" by its initials in Spanish).

The additions to property, plant and equipment during 2017, 2016 and 2015, are mainly comprised of construction in process, related to the following pipeline segments: Guaymas–El Oro, Ojinaga–El Encino, San Isidro-Samalayuca and El Empalme pipeline branch.

As of December 31, 2017, the pipeline projects started commercial operation as follows:

- San Isidro - Samalayuca on March 31, 2017
- Guaymas - El Oro on May 19, 2017
- El Empalme pipeline branch on June 24, 2017
- Ojinaga - El Encino on June 30, 2017

As of December 31, 2017, 2016 and 2015, additions of property, plant and equipment that were not paid, amount to $41.7 million, $49.8 million and $5.2 million, respectively.

Borrowing cost. During the years ended December 31, 2017, 2016 and 2015 the Company capitalized borrowing costs on qualifying assets in the amount of $10.2 million, $14.8 million and $15.1 million, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 2.98 percent, 3.33 percent and 3.47 percent, for the years ended December 31, 2017, 2016 and 2015, respectively.

14.1. Useful lives of property, plant and equipment

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility [1]	5-45
Plant and equipment for wind power generation facilities [1]	20-30
Pipelines system for transportation and distribution of gas [1]	34-50
Plant and equipment for generation of electricity [1]	37
Fiber optic network [2]	5-20
Leasehold improvements [2]	3-10
Machinery and other equipment [2]	3-10
Other assets [2]	3-20

1 Useful lives related to plant and equipment category
2 Useful lives related to other assets category

15. Intangible assets

	As of 12/31/17	As of 12/31/16
Carrying amounts of:		
Renewable transmission rights (a)	$ 154,144	$ 154,144
O&M contract (b)	44,566	—
Amortization	(8,511)	—
	$ 190,199	$ 154,144

(a) Renewable transmission rights

As of December 14, 2016, regarding Ventika's acquisition the Company recorded $154.0 million related to the renewable transmission and consumption rights associated with the projects approved under the preexisting self-supply renewable program.

Amortization is calculated using the straight-line method based on the remaining useful life of the related intangible asset, derived over the term of the self-supply power agreements of 20 years. As of December 31, 2017, the amortization amount to $8.3 million.

(b) O&M Contract

In November 2017, the Company, through DEN´s asset acquisition, acquired an intangible asset related to the O&M contract with TAG, the amortization is calculated on a straight-line basis until the expiration of the Agreement in February 2041, equivalent to 23 years.

As of December 31, 2017, the amortization amount to $0.2 million.

16. Trade and other payables

	As of 12/31/17	As of 12/31/16	As of 12/31/15
Trade payables	$ 72,603	$ 93,731	$ 43,830
Other miscellaneous payables	35	835	19
	$ 72,638	$ 94,566	$ 43,849

The average credit period on purchases of goods and services is between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

17. Employee benefits

17.1. Defined contribution component

The Company provides a defined contribution plan for all permanent full-time employees in Mexico. Employees that leave the Company obtain the capital accumulated with the contributions according to the following vesting schedule: a) Basic Contribution: 100 percent immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100 percent in case of death or disability, and in case of voluntary termination according with the Company policy.

17.2. Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in Mexico. Under the plans, the employees are entitled to retirement benefits varying between 55 percent and 100 percent of their final salary upon reaching the retirement age of 65 years. No other post-retirement benefits are provided to these employees.

17.3. Seniority premium benefits

The Company provides seniority premium benefits, which consist of a lump sum payment of 12 days of wages per each year worked, calculated using the employee's most recent salary, not to exceed twice the minimum wage established by law.

17.3.1. Costs and obligations for post-employment and other long-term employee benefits

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at		
	12/31/17	12/31/16	12/31/15
Discount rates	8.25%	8.00%	8.00%
Expected rates of salary increase	4.75%	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%	3.75%
Exchange rate	$ 18.20	$ 19.72	$ 17.20

Amounts recognized within current earnings and OCI as well as benefits paid with respect to the Company's post-employment and other long-term employee benefits were as follows:

	As of		
	12/31/17	12/31/16	12/31/15
Current service cost recognized in administrative and other expenses	$ 155	$ 646	$ 531
Interest on obligation recognized in finance costs	457	345	321
Actuarial gain (losses) recognized in OCI	704	1,765	(1,793)

The amount included in the Consolidated Statements of Financial Position arising from the Company's obligation related to its defined benefit plans, and changes in the present value of the defined benefit obligation in the current year, were as follows:

	As of		
	12/31/17	12/31/16	12/31/15
Opening defined benefit obligation	$ 5,586	$ 4,295	$ 3,045
Current service cost	105	585	531
Interest benefit	422	309	321
Actuarial gain (loss)	482	435	(655)
Exchange differences on plans maintained by Mexican peso functional currency entities	—	—	1,102
Payment	—	115	—
Benefits paid	(58)	(153)	(49)
Ending defined benefit obligation	$ 6,537	$ 5,586	$ 4,295

18. Other financial liabilities

	As of 12/31/17	12/31/16	12/31/15
Accrued interest payable (a)	$ 6,959	$ 4,855	$ 5,661
Guarantee liability (b)	2,080	—	—
Customer deposits	1,333	1,022	783
	$ 10,372	$ 5,877	$ 6,444

(a) Balance represents accrued interest payable on long-term debt. Please refer to Note 23.

(b) IEnova and its partner on the Sur of Texas-Tuxpan natural gas pipeline, Transcanada, have a jointly guaranteed obligation for constructions services during the construction of the pipeline. Please refer to Note 10.3.

19. Other liabilities

	As of 12/31/17	12/31/16	12/31/15
Wages and benefits payable	$ 19,012	$ 14,995	$ 12,482
Other current liabilities	619	13,866	4,755
	$ 19,631	$ 28,861	$ 17,237

20. Carbon allowances

The Company is required by California Assembly Bill 32 to acquire CAs for every metric ton of carbon dioxide equivalent emitted into the atmosphere during electricity generation. Under the bill TDM is subject to this extraterritorial regulation, despite being located in Baja California, Mexico since their end users are located in California, U. S.

The Company records CAs at the lower of weighted average cost or market value, and includes them as current or non-current on the Consolidated Statements of Financial Position based on the dates that they are required to be surrendered. The Company measures the compliance of the obligation, which is based on emissions, at the carrying value of allowances held plus the fair value of additional allowances necessary to satisfy the obligation. The Company derecognizes the assets and liabilities from the Consolidated Statements of Financial Position as the allowances are surrendered. Please refer to Note 12.

CAs are shown in the Consolidated Statements of Financial Position as follows:

Assets:	**As of 12/31/15**
Current	$ 5,385
Non-current	12,975
	$ 18,360
Liabilities	
Current	$ 5,385
Non-current	12,611
	$ 17,996

21. Short-term debt

As of December 31, 2017, 2016 and 2015, short-term debt includes the following:

	12/31/17	As of 12/31/16	12/31/15
Credit agreement (a)	$ 137,053	$ 446,034	$ 91,374
Certificados Bursatiles ("CEBURES") at variable rate (Refer to Note 23.a.)	65,871	—	—
Current portion of IEnova Pipelines Bank Loan (Refer to Note 23.c.)	40,631	38,682	—
Current portion of Ventika Bank Loan (Refer to Note 23.d.)	22,588	13,482	—
	266,143	498,198	91,374
Borrowing costs	(3,383)	(4,627)	(2,867)
	$ 262,760	$ 493,571	$ 88,507

(a) ***Credit agreement.*** On August 21, 2015, the Company entered into an agreement for a $400.0 million, U.S. Dollar-denominated, five-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lenders are Banco Nacional de Mexico, S. A. Integrante de Grupo Financiero Banamex, SMBC, Santander, The Bank of Tokyo, and The Bank of Nova Scotia.

Credit facility with SMBC. On August 25, 2014, the Company entered into an agreement for a $100.0 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Sumitomo Mitsui Banking Corporation. Interest accrues based on the 3-month LIBOR plus 105 BPS. During July 2015, the Company withdrew $34.0 million. On August 24, 2015, the Company decided to repay the total credit facility and cancelled this credit facility.

Interest accrues based on the 3-month LIBOR plus 90 BPS. As of December 23, 2015, IEnova had $310.0 million of outstanding borrowings supported by the facility. On December 22, 2015, the Company renegotiated the credit line of agreement for an amount up to $600.0 million, U.S. Dollar-denominated. On December 23, 2015, the Company decided to repay $219.0 million (principal) of such credit facility.

Withdrawal of credit line. In June and July 2016, the Company withdrew $20.0 million and $380.0 million, respectively, of the credit line to be used for working capital and general corporate purposes. In December 2016, the Company withdrew $375.0 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On October 21, 2016, the Company paid $250.0 million of the credit agreement.

On November 3, 2016, the Company renegotiated the credit line of the credit agreement for an amount up to $1,170.0 million, U.S. Dollar-denominated. On December 30, 2016, a portion of this revolving credit was repaid in the amount of $200.0 million.

On November 14, 2017, the Company withdrew $260.0 million, a portion of this disposition was used to finance the acquisition of DEN. (Please refer to Note 11.3.).

On December 14, 2017, with the proceeds received from the Senior Notes offering the Company paid a portion of this revolving credit by $730.0 million. (Please refer to Note 23.f.).

As of December 31, 2017, 2016 and 2015 the available unused credit portion is $1,033.0 million, $724.0 million and $509.0 million, respectively.

Dispositions of the credit line to be used for working capital and general corporate purposes.

(b) ***Financing of project's VAT*** - On April 8, 2014, Ventika entered into a line of credit with NAFINSA and BANCOMEXT, as lenders. On December 17, 2015, there was an amendment to increase the line for up to $569.4 million Mexican Pesos and $713.3 million Mexican pesos, respectively. Interest was accrued at the TIIE plus 250 BPS payable on a quarterly basis. The credit line under this contracts was used to finance the VAT on the Ventika's projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.

(c) ***Credit facility with Santander.*** On June 19, 2014, the Company entered into an agreement for a $200.0 million, U.S. Dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender Santander. Interest accrued base on the 3-month LIBOR plus 105 BPS. During July and August 2015, the Company withdrew $76.0 million and $25.0 million respectively. On August 26, 2015, the Company decided to repay the total credit facility. As a result, transaction cost were recorded in the Consolidated Statements of Profit.

22. Provisions

				As of		
		12/31/17		**12/31/16**		**12/31/15**
Decommissioning liabilities (a)	$	58,654	$	41,618	$	34,236
Other provisions (b)		8,950		10,347		1,293
	$	67,604	$	51,965	$	35,529
Current	$	394	$	930	$	1,293
Non-current		67,210		51,035		34,236
Total provisions	$	67,604	$	51,965	$	35,529

		Asset retirement obligations		**Others**		**Total**
Balance as of January 1, 2015	$	38,250	$	1,619	$	39,869
Additional provisions recognized		1,596		—		1,596
Payments and other decreases in provisions recognized		—		(326)		(326)
Unwinding of discount and effect of changes in the discount rate		(5,610)		—		(5,610)
Balance as of December 31, 2015	$	34,236	$	1,293	$	35,529
Additional provisions recognized		1,705		9,380		11,085
Increase of financial cost		1,745		—		1,745
Payments and other decreases in provisions recognized		—		(326)		(326)
Unwinding of discount and effect of changes in the discount rate		3,932		—		3,932
Balance as of December 31, 2016	$	41,618	$	10,347	$	51,965
Additional provisions recognized		4,239		—		4,239
Increase of financial cost		1,983		—		1,983
Payments and other decreases in provisions recognized		—		(1,397)		(1,397)
Unwinding of discount and effect of changes in the discount rate		10,814		—		10,814
Balance as of December 31, 2017	$	58,654	$	8,950	$	67,604

(a) Decommissioning liabilities

For long-lived assets, the Company recognized decommissioning liabilities for the present value of future costs expected to be incurred when assets are withdrawn from service, if the Company has a legal or constructive obligation and if the Company can make a reasonable estimate of that obligation. The discount rates used by the Company were 3.90 percent, 4.54 percent and 4.66 percent as of December 31, 2017, 2016 and 2015, respectively.

(b) Other provisions

The balance of other provisions include a liability by $0.4 million due to an onerous contract representing the present value of future losses that the Company expects to incur under one of their service contracts. Because the related asset is operating below full capacity, management of the Company utilized a present value model to determine the provision utilizing a discount rate of 10 percent.

The Company reported damage and declared a force majeure event for the Guaymas-El Oro segment of the Sonora pipeline in the Yaqui territory that has interrupted its operations since August 23, 2017. As of December 31, 2017, the Company recorded a provision by $0.8 million. The Sasabe-Puerto Libertad-Guaymas segment remains in full operation.

As of December 31, 2017, the balances of the Specific Services Contract ("CSE") related to the authorized provision stipulated under the O&M contract with Pemex TRI regarding the acquisition of materials, spare parts and services for the maintenance of the pipelines transportation system amounts $7.7 million.

23. Long-term debt

As of December 31, 2017, 2016 and 2015, long-term debt includes:

	As of		
	12/31/17	**12/31/16**	**12/31/15**
Senior Notes (f)	$ 840,000	$ —	$ —
Santander -Ventika (d, e)	451,248	472,781	—
BBVA Bancomer - IEnova Pipelines (c)	277,175	317,279	—
CEBURES at fixed rate (a, b)	197,614	188,734	226,659
CEBURES at variable rate (a, b)	—	62,911	75,553
	1,766,037	1,041,705	302,212
Debt issuance costs	(33,997)	(1,901)	(2,287)
	$ 1,732,040	$ 1,039,804	$ 299,925

a. ***CEBURES.*** On February 14, 2013, the Company entered into two public debt issuances of CEBURES or debt securities as follows:

i) The first placement was for $306.2 million ($3,900 million of historical Mexican Pesos) bearing interest at a rate of 6.30 percent, with semi-annual payment of interest, maturing in 2023.

ii) The second placement was for $102.1 million ($1,300 million of historical Mexican Pesos) bearing interest at variable rate based on the TIIE plus 30 BPS, with monthly payments of interest, maturing in 2018. The average annual rate as of December 31, 2017, 2016 and 2015, was 7.25 percent, 4.64 percent and 3.62 percent, respectively.

b. ***Cross-currency and interest rate swaps.*** On February 14, 2013, regarding the placements of CEBURES, the Company executed cross-currency and interest rate swap contracts for hedging its exposure to the payment of its liabilities in Mexican Pesos:

i) For the debt maturing in 2023, the Company swapped fixed rate in Mexican Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U.S. Dollars for this swap was 4.12 percent.

ii) For the debt maturing in 2018, the Company swapped variable rate in Mexican Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U.S. Dollars for this swap was 2.65 percent.

The swaps' total notional value is $408.3 million ($5,200 million historical Mexican Pesos). These contracts have been designated as cash flow hedges.

c. ***Bancomer - IEnova Pipelines.*** On December 5, 2013, IEnova Pipelines signed a credit contract with Bancomer as agent and Deutsche Bank Mexico, Fiduciary Division, as Fiduciary. The amount of the loan is for $475.4 million U.S. Dollars, the proceeds of which will be used to develop the Entity's projects in process. The four participating credit institutions are Bancomer with a 50 percent contribution, The Bank of Tokyo with 20 percent, Mitzuho with 15 percent and NORD/LB with 15 percent.

The loan calls for quarterly payments beginning on March 18, 2014, and ending in 2026 for a total term of 13 years.

The loan bears an interest at the LIBOR plus 2.0 percent per year until the fifth anniversary, LIBOR plus 2.25 percent from the fifth to the eight anniversary, LIBOR plus 2.50 percent from the eighth to twelfth anniversary and LIBOR plus 2.75 percent from the thirteenth anniversary until maturity.

As of December 31, 2017, the long term debt maturity are as follows:

Year	Amount
2018	$ 40,631
2019	39,119
2020	42,213
Thereafter	195,843
	$ 317,806

In such credit, IEnova Pipelines was defined as debtor, TDF together with GdT were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by IEnova Pipelines, TDF and GdT as source of payment for the credit.

Covenants arising from the credit require for the following:

Maintain a minimum member´s equity during the term of the loan, in the amounts indicated:

Entity	Amount
IEnova Pipelines	$ 450,000
GdT	130,000
TDF	90,000

Maintain an interest ratio of 2.5 to 1 at least on a consolidated basis (EBITDA to interest) for the payment of interest.

As of the date of the Consolidated Financial Statements, the Company has complied with these obligations.

On January 22, 2014, the Company contracted a financial derivative instrument (swap) with Bancomer, The Bank of Tokyo, Mizuho and NORD/LB. Such swap is to cover the interest rate risk on its debt total amount. The financial instrument changes the LIBOR for a fixed rate of 2.63 percent.

The Company has designated derivative financial instruments mentioned above under the model of cash flow hedges, in terms of what is permitted by the accounting standards. Given that, this interest rate swap, hedge objective is to set the flowing cash derived from interest payments on the syndicated loan maturing in 2026.

d. ***Project financing for the Ventika project.*** On April 8, 2014, Ventika entered into a project finance loan for the construction of the wind projects with five banks: Santander as administrative and collateral agent, the NADB, Banco Nacional de Obras y Servicios Publicos, S. N. C. Institucion de Banca de Desarrollo ("BANOBRAS"), BANCOMEXT, and NAFINSA as lenders.

The credit facilities mature according to the following table, with payments due on a quarterly basis each March 15, June 15, September 15 and December 15 until the final maturity date, as follows:

Bank	**Maturity date**
SANTANDER	3/15/2024
BANOBRAS	3/15/2032
NADB	3/15/2032
BANCOMEXT	3/15/2032
NAFINSA	3/15/2032

The breakdown of the debt is as follows:

Bank		**As of 12/31/17**
NADB	$	138,320
SANTANDER		107,096
BANOBRAS		88,920
BANCOMEXT		69,160
NAFINSA		69,160
Interest payable		1,180
	$	473,836

e. ***Interest Rate Swaps.*** In order to mitigate the impact of benchmark interest rate changes, Ventika entered into four interest rate swaps with Santander and BANOBRAS; it allows Ventika to have almost 92.0 percent of the mentioned credit facilities above fixed. The swap contracts allow for the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent, respectively, and to receive variable interest rate (three-month LIBOR).

f. ***Senior Notes.*** On December 14, 2017, the Company entered into an agreement for $840.0 million international Senior Notes as follows:

i) The first placement was for $300.0 million bearing interest at a rate of 3.75 percent, with semi-annual payment of interest, maturing in 2028.

ii) The second placement was for $540.0 million bearing interest at a rate of 4.88 percent, with semi-annual payment of interest, maturing in 2048.

As of December 31, 2017, the debt issuance costs amounts $32.6 million.

The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

24. Financial instruments

24.1. Capital management

The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends.

The Company is subject to externally imposed capital requirements for its regulated subsidiaries in the gas segment. According to applicable regulations the subsidiaries need to include in their bylaws the requirement to have a minimum fixed capital, without withdrawal rights, equivalent to 10 percent of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its projects. As of December 31, 2017, 2016 and 2015, the Company had complied with the above requirements.

24.2. Categories of financial instruments

		As of	
	12/31/17	**12/31/16**	**12/31/15**
Financial assets			
Cash and cash equivalents	$ 37,208	$ 24,918	$ 40,377
Short term investment	1,081	80	20,068
Restricted cash	55,820	51,363	—
FVTPL			
Held for trading	9,146	8,120	21,994
Amortized cost			
Loans and receivables	613,280	218,214	193,102
Financial leasing	950,310	957,466	14,510
Financial liabilities			
FVTPL			
Held for trading	$ 204,170	$ 226,161	$ 133,056
Amortized cost	2,695,537	1,897,812	829,835

24.3. Financial risk management objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

24.4. Market risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The Parent's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

24.5. Value at Risk ("VaR") analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95 percent confidence interval in its VaR calculations. The one-day 95 percent VaR number reflects the 95 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day) by risk type		**As of**	
	12/31/17	**12/31/16**	**12/31/15**
Interest rate swap	$ 2,581	$ 4,025	$ 3,761
Total VaR exposure	$ 2,452	$ 3,824	$ 3,573

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95 percent confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.1.

24.6. Commodity price risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, gas pipelines and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Please refer to Note 24.4.

24.7. Foreign currency risk management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it also has balances in Mexican Pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	Financial assets		
		As of	
	12/31/17	**12/31/16**	**12/31/15**
U. S. Dollar functional currency subsidiaries	$ 746,038	$ 171,462	$ 159,824
Mexican Peso functional currency subsidiaries	33,594	19,900	30,110

	Financial liabilities		
		As of	
	12/31/17	**12/31/16**	**12/31/15**
U. S. Dollar functional currency subsidiaries	$ 853,067	$ 779,000	$ 585,062
Mexican Peso functional currency subsidiaries	26,478	34,012	31,713

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, income tax receivables or payables, prepaid expenses, guarantee deposits, intercompany loans, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, their U.S. Dollar balances include: bank accounts, intercompany loans, trade accounts receivables or payables and provisions.

Exchange rates in effect as of the date of the Consolidated Financial Statements and their issuance date are as follows:

	Mexican Pesos			
	12/31/17	**12/31/16**	**12/31/15**	**03/01/18**
One U.S. Dollar	$ 19.7354	$ 20.6640	$ 17.2065	$ 18.7902

24.7.1. Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 24.7. are exposed to the Mexican Peso for its U.S. Dollar functional currency subsidiaries and to the U.S. Dollar for its Mexican Peso functional currency subsidiaries.

The following table details the Company's profit and OCI sensitivity to a 10 percent increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. Dollar functional currency			Mexican Peso functional		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Profit (loss) (i)	$ 6,811	$ 38,662	$ 27,061	$ (453)	$ 898	$ 94
OCI	—	—	—	2,580	(9,486)	(5,692)

(i) This is mainly attributable to the exposure to outstanding Mexican Peso receivables in the U.S. Dollar functional currency subsidiaries at the end of each reporting period.

The U.S. Dollars functional currency subsidiaries sensitivity to foreign currency decreased mainly due to higher intercompany loans with unconsolidated affiliates.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased mainly due to lower trade and other trade receivables balances.

24.8. *Interest rate risk management*

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450.0 million from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of $30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item. As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of $151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5 percent.

The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a prepayment in the amount of $29.8 million and as a result, such derivative was cancelled. The one-year VaR information related to the interest rate swap is included in Note 24.5.

24.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

As described in Note 10.2.b. the joint venture with InterGen entered into a swap contract that effectively hedges the interest rate risk due to variable rate financings.

As described in Note 10.5.b. the joint venture with Pemex TRI entered into swap contract that effectively hedges the interest rate risk due to variable rate financings.

The fair value of derivative instruments is based on the market values in place as of the date of the Consolidated Financial Statements, which impacts investment in joint venture with a debit to current earnings.

The Company's management considers the results of the sensitivity analysis for these derivatives to be inmaterial.

24.9. *Credit risk management*

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In ECO, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, (which are confirmed); and,
- Registration with tax agency for commercial customers with minor consumption

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and,
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100 percent of the balances of major customers by the credit and collection department, to make sure that payments are made on a timely manner and to ensure that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty's nonperformance.

For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements and, therefore, rely on these agreements for future performance.

24.9.1.Concentration of credit risk

GRO and TGN (both merged into GAP) conduct their businesses based upon ongoing evaluations of their customers' financial conditions and certain guarantees, except when such clients qualify for credit based on their long-term debt credit ratings issued by S&P's or other credit rating agency in the U. S. or Canada.

GRO´s management believes that the risk arising from its concentration of credit is mitigated since all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

TGN provides transportation services mainly to one sole customer. TGN´s management believes that a concentration of credit risk is mitigated since its customer pays on a monthly basis, otherwise service can be suspended until due amounts are collected.

IEnova Marketing sells natural gas and provides transportation services to some customers. IEnova Marketing's management believes that although a potential concentration of credit risk is present, this risk is mitigated since one of its customers is a governmental entity and another is a related party. Additionally, all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

ECA provides LNG storage and regasification services to IEnova Marketing and two other third parties. ECA's management believes that although a concentration of credit risk may exist, this risk is mitigated based on the creditworthiness of its customers and the related party nature of one of its contractual arrangements.

GAP provides transportation services mainly to a one sole customer. GAP´s management believes that its credit risk is mitigated since the customers is a governmental entity with high credit rating and pays on a monthly basis.

The following table shows the Company's revenue concentration by customer:

	Segment	12/31/17	12/31/16	12/31/15
Customer 1	Gas	$ 317,055	$ 226,496	$ 197,559
Customer 2	Gas	168,937	40,592	—
Customer 3	Gas	114,093	30,040	—
Customer 4	Gas	103,043	101,999	51,683
Customer 5	Gas	87,160	88,646	89,037
Customer 6	Gas	78,940	61,416	—
Customer 7	Gas	36,397	35,838	—
Customer 8	Power	35,389	3,594	—
Customer 9 *	Power	—	—	83,667
Customer 10	Gas	—	—	49,138
Others **		225,512	129,273	141,957
		$ 1,166,526	$ 717,894	$ 613,041

* Please refer to Note 12.

** Within others, there are no customers with revenue concentration greater than 10 percent.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result, the Company's management does not estimate the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2017, 2016 and 2015, was $313.6 million, $190.2 million and $172.2 million, respectively.

24.10. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Parent's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2017 the projects were funded with resources obtained from the Global Offering (Note 1.2.6.), unconsolidated affiliates loans and bank financing. The Company´s current liabilities exceed its current assets mainly due to loan from unconsolidated affiliates and short-term debt. As explained in Note 21., the Company had $1,033.0 million of unused lines of credits with banks and $7,600 million Mexican Pesos available approximately under the current authorized CEBURES program at the Mexican Stock Exchange by the Comision Nacional Bancaria y de Valores ("CNBV").

24.10.1.Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturity, which is the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest	Less than 1 year	1-3 years	3-5 years	5+ years	Total
December 31, 2017						
Variable interest rate from banks (SMBC)		$ 137,053	$ —	$ —	$ —	$ 137,053
Variable interest rate from banks (Senior Notes 10 years)	3.75	6,563	33,750	56,250	316,875	413,438
Variable interest rate from banks (Senior Notes 30 years)	4.88	15,356	78,975	131,625	1,105,988	1,331,944
Variable interest rate of short-term debt (Note 23.)	4.14	65,871	—	—	—	65,871
Fixed interest rate of long-term debt (Note 23.)	6.30	12,623	37,868	211,378	—	261,869
Variable interest rate loan from banks (Ventika)	5.60	48,211	76,868	210,235	472,467	807,781
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,642	39,034	341,697	—	434,373
		$ 339,319	$ 266,495	$ 951,185	$ 1,895,330	$3,452,329
December 31, 2016						
Variable interest rate from banks (SMBC)		$ 442,560	$ —	$ —	$ —	$ 442,560
Variable interest rate of short-term debt (Note 23.)	4.14	2,512	57,613	—	—	60,125
Fixed interest rate of long-term debt (Note 23.)	6.30	12,055	36,166	24,111	177,769	250,101
Variable interest rate loan from banks (Ventika)	5.59	38,767	75,855	50,570	645,630	810,822
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,576	44,682	29,788	361,961	490,007
		$ 549,470	$ 214,316	$ 104,469	$ 1,185,360	$2,053,615

	Weighted average effective interest	Less than 1 year	1-3 years	3-5 years	5+ years	Total
December 31, 2015						
Non-interest bearing		$ 19,494	$ —	$ —	$ —	$ 19,494
Variable interest rate loans from unconsolidated affiliates	1.75	122,129	—	—	—	122,129
Variable interest rate loan from unconsolidated affiliates	1.54	223,029	—	—	—	223,029
Variable interest rate short term debt (Note 21.)	1.28	92,523	—	—	—	92,523
Variable interest rate of long-term debt (Note 23.)	4.52	3,439	6,879	6,879	85,610	102,807
Fixed interest rate of long-term debt (Note 23.)	6.30	14,368	28,736	226,480	—	269,584
Variable interest rate loan from SOT Suisse	3.28	1,285	2,570	33,599	—	37,454
		$ 476,267	$ 38,185	$ 266,958	$ 85,610	$ 867,020

Prepayments on intercompany loans can be made at the Company’s discretion.

The following table details the Company’s liquidity analysis for its derivative financial instruments. The table has been drawn-up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates or commodity prices forward curves at the end of the reporting period.

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2017					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)
	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2016					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)
	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2015					
Net settled:					
- Interest rate swaps, exchange rate	$ 2,062	$ (27,032)	$ (1,661)	$ (106,759)	$ (133,390)
	$ 2,062	$ (27,032)	$ (1,661)	$ (106,759)	$ (133,390)

24.11. Fair value of financial instruments

24.11.1.Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the Consolidated Financial Statements approximate their fair values.

	As of					
	12/31/17		12/31/16		12/31/15	
	Carrying amount	Fair value	Carrying amount	Fair Value	Carrying amount	Fair value
Financial assets						
Financial lease receivables	$ 950,310	$ 950,310	$ 957,466	$ 995,096	$ 14,510	$ 57,125
Due from unconsolidated affiliates	491,422	552,152	94,264	90,989	—	—
Financial liabilities						
Financial liabilities held at amortized cost:						
- Long-term debt (traded in stock exchange)	1,037,614	998,995	249,744	232,812	299,925	289,955
- Loans from banks long-term	728,423	849,486	790,060	678,649	—	—
- Loans from unconsolidated affiliates (Short-term)	509,800	509,800	248,580	245,255	339,600	334,431
- Short- term debt	266,143	266,090	493,571	487,252	88,507	90,035
- Loans from unconsolidated affiliates (Long-term)	73,460	69,967	3,080	3,080	38,460	37,704

24.11.2. Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of finance lease receivables is determined by calculating the present value of the minimum lease payments, including the contract extension period, using the discount rate that represents the Company's internal rate of return on capital investments.

- The Company determined the fair value of its long-term debt using prices quoted on recognized markets.

- For financial liabilities other than long-term debt, the Company determined the fair value of its financial liabilities carried at amortized cost by determining their present value as of each period end. The risk free interest rate used to discount to present value is adjusted to reflect the Company's own credit risk.

- The fair value of commodity and other derivative positions, which include interest rate swaps, are determined using market participant assumptions to price these derivatives. Market participants' assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

Significant assumptions used by the Company in determining the fair value of the following financial assets and liabilities are set out below:

Finance lease receivables. The fair value of finance lease receivables is estimated to be \$950.0 million, \$995.1 million and \$57.1 million as of December 31, 2017, 2016 and 2015, respectively, using the risk-free interest rate adjusted to reflect the Company's own credit risk.

24.11.3. Fair value measurements recognized in the Consolidated Statements of Financial Position

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined in Note 2.2.b.

A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Also, management considers the Company's credit standing when measuring its liabilities at fair value.

The Company establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability as of reporting date, either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and are generally less observable from objective sources.

The assets and liabilities of the Company that were recorded at fair value on a recurring basis are listed in the following table and were classified as Level 1 and 2 in the fair value hierarchy as shown below:

	As of 12/31/17	12/31/16	12/31/15
Financial assets at FVTPL			
Short-term investments (Level 1)*	$ 56,901	$ 51,443	$ 20,068
Derivative financial assets (Level 2)	8,065	8,040	1,926
Financial liabilities at FVTPL			
Derivative financial liabilities (Level 2)	204,170	226,161	133,056

The Company does not have financial assets or liabilities classified as Level 3 and there were no transfers between Level 1 and 2 during the reporting periods presented.

* The short term investments include restricted cash by $55.8 million and $51.4 million as of December 31, 2017 and 2016, respectively.

24.11.4. Commodities and other derivative positions

The Company enters into derivative financial instrument agreements to hedge the volatility of its income tax impact attributable to the fluctuation of the Mexican Peso relative to the U.S. Dollar. Certain monetary assets and liabilities of the Company are denominated in U.S. Dollars (functional currency); however, they are remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability.

The Company recognized the change in fair value and the settlements in the "cost of revenue" line item within the Consolidated Statements of Profit.

25. Income taxes

The Company is subject to ISR. The rate of current income is 30 percent.

25.1. Income taxes recognized in the consolidated statements of profit:

	As of 12/31/17	12/31/16	12/31/15
Current income tax:			
ISR	$ (39,224)	$ (100,036)	$ (73,704)
IETU-IMPAC	(205)	—	(226)
	(39,429)	(100,036)	(73,930)
Deferred Income tax:			
Deferred income tax	(70,234)	(47,122)	(20,307)
Total taxes in the Consolidated Statements of Profit	$ (109,663)	$ (147,158)	$ (94,237)

Income tax expense is reconciled with the profit before tax as follows:

	12/31/17	Year ended 12/31/16	12/31/15
Profit before income tax and share of profits of joint ventures	$ 475,564	$ 971,639	$ 206,904
Income tax expense calculated at 30%	(142,669)	(291,492)	(62,071)
Non-deductible expenses	(2,770)	(2,456)	(1,368)
Effects of foreign exchange rate	(18,631)	38,750	27,340
Effects of inflation adjustment	(32,283)	(8,889)	(2,930)
Effect of unused tax losses not recognized as deferred income tax asset	—	(23)	(22)
Effect of the remeasurement of equity method investment	—	201,921	—
Non-taxable income	244	917	328
Effect of foreign exchange rate and inflation on the tax bases of property, plant and equipment, net and unused tax losses	94,728	(83,055)	(55,188)
Other	(8,282)	(2,831)	(326)
Income tax expense recognized in the Consolidated Statements of Profit	$ (109,663)	$ (147,158)	$ (94,237)

The change in the effective tax rates was mainly attributable to the following:

- The effect of foreign currency exchange gains or losses is being calculated on Mexican Pesos balances for financial reporting purposes, while the Mexican income tax law recognizes foreign exchange gains or losses on U. S. Dollar balances.
- The effect of exchange rate changes in the tax basis of property, plant and equipment, which are valued in Mexican Pesos for tax purposes, while maintained in U. S. Dollars (functional currency) for financial reporting purposes. In addition, the Mexican income tax law takes into account the effects of inflation on such tax basis.
- The inflationary effects relative to certain monetary assets and liabilities.

25.2. Income tax recognized directly in common stock and OCI

	12/31/17	Year ended 12/31/16	12/31/15
Recognized directly in common stock:			
Issuance or ordinary shares under IPO and Follow-on	$ 17,851	$ 10,463	$ 7,388
Recognized directly in OCI:			
Tax related to actuarial gain (loss) on defined benefit plans	(211)	(530)	538
Tax on valuation of financial instruments held for hedging purposes	(2,357)	(5,459)	3,589
Total of income tax recognized directly in common stock and OCI	$ 15,283	$ 4,474	$ 11,515

25.3. Deferred income tax assets and liabilities balances

The following is the analysis of deferred income tax assets (liabilities) presented in the Consolidated Statements of Financial Position:

		As of	
	12/31/17	12/31/16	12/31/15
Deferred income tax assets:			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	$ 171,015	$ 265,310	$ 132,973
Accrued expenses and provisions	43,381	28,940	17,182
Effect of business combination IEnova Gasoductos Mexico	1,453	1,550	1,648
Employee benefits	5,941	4,835	4,245
Asset from dividends not distributed from net income tax account (“CUFIN”, by its initials in Spanish)	—	—	1,277
Inventories	2,768	3,861	1,839
Allowance for doubtful accounts	139	123	171
Deferred income tax assets for issuance or ordinary shares under IPO and follow on	17,851	17,851	7,388
Deferred income tax asset regarding valuation of financial instruments held for hedging purposes	10,360	19,899	8,042
Others	—	(1,720)	(631)
Total deferred income tax assets	252,908	340,649	174,134
Deconsolidation effect (a)	(155,574)	(250,961)	(95,169)
Deferred income tax asset	$ 97,334	$ 89,688	$ 78,965
Deferred income tax liabilities:			
Property, plant and equipment	$ (318,297)	$ (340,451)	$ (340,549)
Finance leases	(285,000)	(287,240)	(4,353)
Effect of assets fair value and intangible of Ventika	(86,241)	(88,355)	—
Prepaid expenses	(4,693)	(11,263)	(4,629)
Other	(12,957)	(13,259)	(6,932)
Total deferred income tax liabilities	(707,188)	(740,568)	(356,463)
Deconsolidation effect (a)	155,574	250,961	95,169
Deferred income tax liabilities	$ (551,614)	$ (489,607)	$ (261,294)

(a) The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and, therefore, they are presented separately in the Consolidated Statements of Financial Position as of December 31, 2017, 2016 and 2015.

25.4. Deferred income tax in the Consolidated Statements of Financial Position

The following is an analysis of the deferred tax assets (liabilities) included in the Consolidated Statements of Financial Position:

		As of	
	12/31/17	12/31/16	12/31/15
Assets	$ 97,334	$ 89,688	$ 78,965
Liabilities	(551,614)	(489,607)	(261,294)
	$ (454,280)	$ (399,919)	$ (182,329)

Deferred tax assets have been recognized for tax-loss carryforwards and the IMPAC paid which provide for future tax benefits in the form of future deductible amounts and tax credits, respectively, and can be realized subject to compliance with certain requirements. Expiration dates and restated amounts as of December 31, 2017, are as follows:

Years	Tax-Loss Carryforwards	IMPAC Recoverable
2018	$ 521	$ 11
2019	1,594	145
2020	1,551	145
2021	1,292	145
2022	511	145
2023	436	145
2024	21,613	145
2025	154,738	145
2026	384,262	145
2027	3,533	145
Thereafter	—	134
	$ 570,051	$ 1,450

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $570.1 million and $1.5 million, respectively.

25.5. Current tax receivable and payable

	As of 12/31/17	12/31/16	12/31/15
Current tax assets:			
ISR receivable	$ 81,909	$ 6,390	$ 16,226
Current tax liabilities:			
ISR payable	$ (3,384)	$ (13,322)	$ (14,095)

26. Stockholders' equity

	As of 12/31/17	12/31/16	12/31/15
Common stock	$ 963,272	$ 963,272	$ 762,949
Additional paid-in equity	2,351,801	2,351,801	973,953
	$ 3,315,073	$ 3,315,073	$ 1,736,902

26.1. Issued member's equity is comprised as follows:

Company stockholder's	Number of shares	For the year ended December 31, 2015 (Mexican Pesos)			Total shares in USD
		Fixed shares	Variable shares	Total	
Semco	935,913,312	50,000	9,359,083,120	9,359,133,120	$ 618,752
Private investors	218,110,500	—	2,181,105,008	2,181,105,008	144,197
	1,154,023,812	50,000	11,540,188,128	11,540,238,128	$ 762,949

Pursuant to a resolution of the general ordinary member's meeting on February 15, 2013, member's equity increase was approved at $1.00 Mexican Peso per share, which was subscribed and paid by SEH an unconsolidated affiliate, increasing the value of its social part; also, Company's name change from Sempra Mexico, S. de R. L. de C. V. to "Sociedad Anonima de Capital Variable" ("S. A. de C. V.", Public limited Company) was approved. As a result of such resolution, the change of social parts for shares was performed; as of February 15, 2013, the distribution of such shares was as follows:

Shareholders name	Shares		
	Class I	Class II	Total
Sempra Energy Holdings XI, B.V.	4,990	935,908,312	935,913,302
Sempra Energy Holdings IX, B.V.	10	—	10
	5,000	935,908,312	935,913,312

Shareholder's equity consists of nominative shares with no-par value. The theoretical value per share is $10.00 Mexican Pesos. The Class I and II represent the fixed and the variable part of shareholder's equity, respectively. Variable capital may be increased without limitation.

On March 6, 2013, BV11 subscribed for a capital increase in Semco (a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova's shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry ("RNV", by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova's shares with the RNV, Semco acquired 100-percent of the Shares of SEH pursuant to the above described terms; therefore, beginning on this date, Semco was the new Parent Company of IEnova.

On March 21, 2013, the Company carried out a Global Offering of shares. Through such Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Mexican Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was $520,707 ($6,448.4 million Mexican Pesos).

In connection with the Global Offering, on March 27, 2013, the underwriters in Mexico and abroad exercised the over-allotment option. The amount of over-allotment was $78,106.0 ($967.0 million Mexican Pesos), related to 28,449,196 shares at the placement price of $34.00 Mexican Pesos per share.

On September 14, 2015, the Ordinary and Extraordinary Shareholder's Meeting approved the proposal of an equity offering through a combined global offering which consists of a public offering in Mexico to the general public and a concurrent international offering as defined by Rule 144A and in Regulation S, under the United States Securities Act of 1933.

In addition an equity increase was approved for up to $3,300 million Mexican Pesos in Ordinary and Extraordinary Shareholder's Meetings; of which 330 million ordinary shares were issued. As of December 31, 2015, such shares have been neither subscribed nor paid, and therefore no impacts have been reflected in the Consolidated Financial Statements.

26.2. Global Offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global Offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of offering costs, was approximately $1.6 billion U. S. Dollars. As a result of the Global Offering, the Company raised $30,400 million Mexican pesos, net of issuance costs for $459.3 million Mexican Pesos ($34.8 million U. S. Dollars). Subsequent to the Company's Global Offering, subscribed and paid common stock of IEnova is represented by a total of 1,534,023,812 shares.

		For the year ended December 31, 2017 and 2016 (Mexican Pesos)			
Company stockholder's	**Number of shares**	**Fixed shares**	**Variable shares**	**Total**	**Total shares in USD**
Semco	1,019,038,312	50,000	16,009,083,120	16,009,133,120	$ 751,825
Private investors	514,985,500	—	25,931,105,000	25,931,105,000	211,447
	1,534,023,812	50,000	41,940,188,120	41,940,238,120	$ 963,272

27. Declared dividends

During 2017, 2016 and 2015, pursuant to the resolution of Extraordinary Stockholders' Meetings, payments of dividends in cash were approved, to be paid from retained CUFIN balances. Under Mexican tax regulation, dividends paid from CUFIN balances are not taxed, dividends were declared and paid, for the following amounts:

Meeting date	Amount
July 25, 2017 (*)	$ 200,000
August 9, 2016	$ 140,000
July 28, 2015	$ 170,000

(*) Dividends were paid on August 15, 2017.

27.1. Dividends per share

	Cents per share for year ended		
	12/31/17	**12/31/16**	**12/31/15**
IEnova	$ 0.13	$ 0.11	$ 0.15

28. Segment information

28.1. Products and services from which reportable segments derive their revenues

Information reported for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segments are described and presented in Note 1.3.

The following tables show selected information by segment from the Consolidated Statements of Profit and Consolidated Statements of Financial Position.

28.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment revenues		
		Year ended	
	12/31/17	12/31/16	12/31/15
Gas:			
Revenues from customers	$ 961,903	$ 610,329	$ 425,618
Revenues from unconsolidated affiliates	103,043	101,998	100,821
Intersegment revenues	241,705	182,542	339,850
Power:			
Revenues from customers	99,721	2,930	—
Corporate:			
Allocation of professional services with affiliates	1,859	2,637	1,766
Intersegment professional services	29,970	29,484	35,527
	1,438,201	929,920	903,582
Intersegment adjustments and eliminations	(271,675)	(212,026)	(290,541)
Total segment revenues	$ 1,166,526	$ 717,894	$ 613,041

	Segment profit		
		Year ended	
	12/31/17	12/31/16	12/31/15
Gas	$ 470,137	$ 919,219	$ 185,313
Power *	(40,970)	(111,749)	(10,626)
Corporate	(74,993)	(52,480)	(34,498)
Total segment profit	$ 354,174	$ 754,990	$ 140,189

*Includes discontinued operations.

Segment profit is the measure reported for the purposes of resource allocation and assessment of segment performance.

28.3. Assets and liabilities by segment

	As of 12/31/17	12/31/16	12/31/15
Assets by segment:			
Gas	$ 6,385,681	$ 5,716,175	$ 2,916,917
Power*	1,170,970	1,241,689	382,763
Corporate	607,208	169,084	207,402
Consolidated total assets	$ 8,163,859	$ 7,126,948	$ 3,507,082
Liabilities by segment:			
Gas	$ 1,030,611	$ 983,424	$ 346,106
Power*	652,502	641,479	66,493
Corporate	1,964,159	1,151,734	914,619
Consolidated total liabilities	$ 3,647,272	$ 2,776,637	$ 1,327,218

*Includes assets and liabilities held for sale.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments. Goodwill is allocated to reportable segments.
- All liabilities are allocated to reportable segments.

28.4. Other information by segment

	Property, plant and equipment			Accumulated depreciation		
	As of			As of		
	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15
Gas	$ 3,569,528	$ 3,354,683	$ 2,687,691	$ (510,744)	$ (424,639)	$ (370,690)
Power	686,195	677,440	450,665	(24,885)	(1,807)	(180,461)
Corporate	18,881	16,191	15,048	(9,519)	(7,783)	(6,413)
	$ 4,274,604	$ 4,048,314	$ 3,153,404	$ (545,148)	$ (434,229)	$ (557,564)

	Depreciation and amortization			Additions to property, plant and equipment		
	Year ended			Year ended		
	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15
Gas	$ 86,182	$ 60,703	$ 50,909	$ 205,452	$ 692,853	$ 308,138
Power	31,049	2,134	45	8,373	673,808	6,436
Corporate	1,789	1,547	1,516	3,237	1,376	1,072
	$ 119,020	$ 64,384	$ 52,470	$ 217,062	$ 1,368,037	$ 315,646

	Interest income			Finance (cost) income		
		Year ended			Year ended	
	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15
Gas	$ 813	$ 959	$ 562	$ 3,371	$ 23,144	$ 22,856
Power	963	1,151	1,451	(24,977)	(1,286)	219
Corporate	21,032	4,159	4,688	(51,299)	(42,694)	(32,934)
	$ 22,808	$ 6,269	$ 6,701	$ (72,905)	$ (20,836)	$ (9,859)

	Share of profits of joint ventures			Income tax (expense) benefit		
		Year ended			Year ended	
	12/31/17	12/31/16	12/31/15	12/31/17	12/31/16	12/31/15
Gas	$ 41,094	$ 40,284	$ 41,485	$ (97,340)	$ (132,952)	$ (99,988)
Power	3,583	2,557	834	(9,472)	1,077	2,002
Corporate	—	—	—	(2,851)	(15,283)	3,749
	$ 44,677	$ 42,841	$ 42,319	$ (109,663)	$ (147,158)	$ (94,237)

28.5. *Revenue by type of product or services*

The following is an analysis of the Company's revenue from its major type of product or service:

		Year ended	
	12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Transportation of gas	$ 429,273	$ 171,459	$ 95,520
Sale of natural gas	241,371	199,126	224,143
Other operating revenues	174,107	157,515	118,315
Natural gas distribution	112,217	89,722	81,411
Storage and regasification capacity	109,837	97,168	93,652
Power generation	99,721	2,904	—
	$ 1,166,526	$ 717,894	$ 613,041

Other operating revenues

(a) IEnova Marketing received payments from SLNGIH and SLNGI related to the losses and obligations incurred in the amount of $103.0 million, $102.0 million and $101.0 million for the years ended December 31, 2017, 2016, and 2015 , respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

(b) The Company reported damage and declared a force majeure event for the Guaymas-El Oro segment of the Sonora pipeline in the Yaqui territory that has interrupted its operations since August 23, 2017. There is no material economic impact due to this event. The Sasabe-Puerto Libertad-Guaymas segment remains in full operation.

29. Interest income

		Year ended	
	12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Interest income:			
Bank investments	$ 1,157	$ 1,071	$ 610
Unconsolidated affiliates	21,651	5,198	6,091
	$ 22,808	$ 6,269	$ 6,701

The following is an analysis of interest income by category of asset:

	As of		
	12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Held-to-maturity investments	$ 1,157	$ 1,071	$ 610
Loans and receivables (including cash and bank balances)	21,651	5,198	6,091
	$ 22,808	$ 6,269	$ 6,701

30. Operating, administrative and other expenses

	Year ended		
	12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Employee benefits expenses	$ 74,917	$ 50,957	$ 42,904
Purchased services	66,845	38,565	25,195
Outside services and others	19,634	9,296	6,274
Purchased materials	15,397	5,936	7,484
	$ 176,793	$ 104,754	$ 81,857

Outside services and others include charges related to leases of land and buildings with lease terms between five and ten years. Operating lease contracts greater than five years includes review periods of five years to rent.

The Company does not have an option to purchase the leased land at the end of the leasing periods.

31. Other (losses) gains, net

	Year ended		
	12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Net foreign exchange (losses) gains (a)	$ (37,643)	$ 6,295	$ (6,709)
Net loss arising on derivative financial instruments (b)	(6,135)	(3,477)	(5,663)
Other gains (losses)	2,188	(650)	946
	$ (41,590)	$ 2,168	$ (11,426)

(a) In 2017, a foreing exchange loss by $34.9 million on a peso-denominated inter-affiliate loan granted to IMG for the development of the South Texas - Tuxpan marine pipeline project for our proportionate share of the project´s financing. (Please refer to Note 10.3.a.)

(b) The amount represents a change in fair value arising from the cross currency swaps, interest rates swaps and foreign exchange forwards and the related settlements. (Please refer to Note 24.)

32. Finance costs

	Year ended 12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Capitalized interest (a)	$ 10,181	$ 14,876	$ 14,881
Decommissioning liabilities accretion expense	(1,983)	(1,431)	(1,354)
Other finance costs	(5,037)	(3,864)	(1,804)
Interest on loans from unconsolidated affiliates	(8,004)	(17,268)	(3,215)
Interest of long-term loan	(68,062)	(13,149)	(18,367)
	$ (72,905)	$ (20,836)	$ (9,859)

(a) Please refer to Note 14., for the capitalized interest on qualified assets.

33. Depreciation and amortization

	Year ended 12/31/17 (Note 12)	12/31/16 (Note 12)	12/31/15 (Note 12)
Depreciation of property, plant and equipment	$ 110,461	$ 63,269	$ 51,680
Amortization of other assets	8,559	1,115	790
Total depreciation and amortization expense	$ 119,020	$ 64,384	$ 52,470

34. Basic and diluted earnings per share from continued and discontinued operation

	Year ended 12/31/17	12/31/16	12/31/15
From continuing operations:			
Basic and diluted earnings per share	$ 0.27	$ 0.70	$ 0.13
From continuing and discontinued operations:			
Basic and diluted earnings per share	$ 0.23	$ 0.61	$ 0.12

34.1. Earnings used in the calculation of basic and diluted earnings per share

The earnings and weighted average number of shares used in the calculation of basic and diluted earnings per share are as follows:

	Year ended 12/31/17	12/31/16	12/31/15
Earnings from continuing operations used in the calculation of basic and diluted earnings per share	$ 410,578	$ 867,322	$ 154,986
Earnings from continuing and discontinued operations used in the calculation of basic and diluted earnings per share	$ 354,174	$ 754,990	$ 140,189
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,534,023,812	1,235,758,229	1,154,023,812

The Company does not have potentially diluted shares.

35. Commitments

35.1. Sales commitments

a. GRO has entered into firm transportation service agreements (“FTSAs”) with eight customers. Under the FTSAs, the Company is committed to provide firm natural gas transportation service up to certain daily quantities of natural gas, defined as Maximum Daily Quantities (“MDQ”) measured in dekatherms per day (“Dth/d”). The FTSAs establish a transportation service rate which can be a conventional rate or a regulated rate. Such rates are applied to customers’ reserved daily transportation capacity. Conventional rates typically remain fixed during the term of the contract. The regulated rates are adjusted annually for inflation and other factors per regulations and the CRE authorization. The range of effective periods and the agreed-upon MDQ for each agreement described above are from 5 to 25 years and from 800 to 1,307,000 Dth/d, respectively.

b. TGN entered into FTSAs with two clients. Through FTSAs the Company commits to surrender transportation services up to a certain daily amount of natural gas. The FTSAs establish conventional or regulated transportation rates.

c. ECA has a contract to sell 50 percent of the LNG Terminal’s capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned a portion of its contracted capacity to another independent third party.

d. ECA built a nitrogen facility to provide nitrogen injection services to agreed storage capacity parties. Agreement terms were embedded into the LNG Terminal’s FTSAs with same period term of 20 year.

e. GAP entered into a 25 year capacity contract with CFE corresponding to segment Sasabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.

f. GAP entered into a 25 year capacity contract with CFE related to next segments:

	Sasabe	**Puerto Libertad**	**San Isidro**	**Guaymas**	**Ojianga**
	Puerto Libertad	**Guaymas**	**Samalayuca**	**El Oro**	**El Encino**
Capacity	793.1 Dth/d		1,169.02 Dth/d	525.3 Dth/d	1,396.7 Dth/d
Started Operation	10/01/2015	08/01/2015	03/31/2017	05/19/2017	06/30/2017
Zone	Sonora		Chihuahua	Sonora and Sinaloa	Chihuahua

g. GAP entered into a 21 year capacity contract with CFE corresponding to segment El Ramal Empalme which started operations in June 2017 and has a capacity of 232.8 Dth/d. This agreement was executed on May 5, 2016.

h. GAP has entered into Interruptible Transportation and Compression of natural gas Service Agreements ("ITSAs") with Shell Trading Mexico, S. de R. L. de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 1,000 Dth/d defined as MDQ. The ITSAs establish a transportation service rate which has to be approved by CRE. This agreement was executed on May 15, 2017 and will continue in full force until May 15, 2022.

i. GAP has entered into ITSAs with Union Energetica del Noroeste, S. A de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 3,600 Dth/d defined as MDQ. The customer will pay the regulated fee applicable in accordance with the latest publication by the Official Gazzete of the Federation and according to the modifications approved by the CRE. This agreement will be valid as of the date on which the customer notifies to GAP that is ready to start the natural gas tests and will be in force until such tests are concluded. This agreement was executed on January 4, 2017.

j. IEnova Pipelines has entered into ITSAs with two customers. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation and compression service up to certain daily quantities of natural gas, defined as MDQ measured in Gigacalories per day ("Gcal/d"). The ITSAs establish a transportation and compression service rate published in the Official Gazette of the Federation in accordance with the applicable regulations. The range of effective periods and the agreed-upon MDQ for each agreement described above are from one to three years and from 3,822 to 10,000 Gcal/d respectively. The agreements were executed on March 22, 2017 and April 19, 2017, and will continue in full force until March 22, 2018 and April 30, 2020, respectively.

k. IEnova Pipelines has entered into ITSAs with MGC Mexico, S. A. de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 630 Gcal/d defined as MDQ. The ITSAs establish a transportation service rate published in the Official Gazette of the Federation in accordance with the applicable regulations. The agreements were executed on April 1, 2017 and will continue in full force until March 31, 2018.

l. Energia Sierra Juarez Holding, S. A. de C. V. ("ESJH") entered into an Electricity Sales and Purchase Agreement ("SPA") with CFE for 15 years and has a contracted energy of 114,115.9 MWh by year and shall take effect from Commercial Operation Date ("COD") which is on June 15, 2019; the contract was executed on January 20, 2017.

m. ESJH signed a Clean Energy Certificates ("CEC") SPA with CFE for 20 years. During this period ESJH acquired the obligation to sell to CFE 117,064 CEC per year. This commitment will take effect from COD which is on June 15, 2019, the contract was executed on January 20, 2017.

n. ESJ Renovable I, S. de R. L. de C. V. ("ESJRI") entered into an Electricity SPA with CFE for 15 years and has contracted energy of 278,357.76 MWh per year and shall take effect from COD which is on June 15, 2019; the contract was executed on January 20, 2017.

o. ESJRI entered into an Power SPA with CFE for 15 years and has a contracted power of 10 MW per year and shall take effect from COD which is on June 15, 2019, the contract was executed on as of January 20, 2017.

p. ESJRI signed a CEC with CFE for 20 years, during this period ESJRI acquired the obligation to sell to CFE 285,606 CEC per year, this commitment will take effect from COD which is on June 15, 2019, the contract was executed on January 20, 2017.

q. ESJ Renovable II, S. de R. L. de C. V. ("ESJRII") entered into an electricity, power and CEC with Deacero, this contract will enter into force on March 24, 2017 and will have a duration of 20 years counted from the COD which is October 1, 2018.

   ESJRII must deliver for each contract year at least the amount of CEC corresponding to the guaranteed Energy that will be one CEC per MWh and is obligated to transfer the net power of the power plant which is 110 MW.

r. ESJ Renovable III, S. de R. L. de C. V. ("ESJRIII") signed the Veracruz terminal services agreement with Valero dated as of July 29, 2017. With effect from and including the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD is expected to take place in December 2018 and include 775,000 barrels of shell storage capacity. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

s. IEnova Gas, S. de R. L. de C. V. ("IG") signed the Puebla terminal services agreement with Valero dated as of July 29, 2017. With effect from and including the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 480,000 barrels of shell capacity. The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of ten years.

t. Gasoductos Servicios Corporativos, S. de R. L. de C. V. ("GSC") signed the Mexico City terminal services agreement with Valero dated as of July 29, 2017. With effect from and including the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 780,000 barrels of shell capacity.

The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

u. On July 1, 2008, IEnova Marketing entered into a contract with CFE, for supply natural gas at the delivery points from an LNG Storage Plant, the contract ends on December 31, 2022, equivalent to 14.5 years.

v. IEnova Marketing has entered into a base contract for sale and purchase of natural gas (the "Base Contract"), through this contract IEnova Marketing celebrated a Supply Agreement with several clients to supply natural gas. The terms and conditions of the Supply Agreement are variable for each customer. As of December 31, 2017, IEnova Marketing support seven ongoing supply agreements with an average maturity less of 5 years.

35.2. Purchase commitments

a. ESJH and Ejido de Sierra Juarez entered into a land lease agreement under which ESJH acquired rights to use land for generating and transmitting electricity using wind turbines. ESJH is obligated to make quarterly payments of \$74.0 during the first 10 years or until the start of commercial operations. In addition, \$294.0 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 100 MW, and \$71.0 is due at the beginning of excavation for turbine foundations for each additional block of 100 MW. If commercial generation of wind power is successfully developed, ESJH will also pay a leasing fee equal to the greater of \$75.0 or 3.5 percent of gross revenues from the sale of electricity for the remainder of the term.

During 2017, 2016 and 2015, payments under the agreements were \$0.3 million, \$0.3 million and \$0.3 million, respectively. This agreement ended in 2017.

b. In 2017, ESJH and ESJRII entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2017, payments under the agreements were \$306.0. Future contractual cash payments are as follows:

Year		Amount
2018	\$	323
2019		306
2020		306
Thereafter		4,902
	\$	5,837

c. The Company leases the building space of its administrative offices in the cities of Tijuana, Hermosillo, Monterrey, Guadalajara, Mexicali, Chihuahua, Durango, and Mexico City. During 2017, 2016 and 2015, the rent expense amounted to \$3.7 million \$4.2 million and \$2.3 million, respectively.

The leases expire in 2016 through 2021 and establish the following future contractual payments:

Year		Amount
2018	\$	3,073
2019		1,907
2020		517
Thereafter		947
	\$	6,444

d. During 2003, TDM entered into a Long Term Services Agreement ("LTSA") with a third party, which covers certain periodic maintenance, including replacement parts for power generation turbines. The term of the agreement is based on turbine usage, that can not exceed 24 years.

Payments under the agreement consist of a fixed fee of $24.0 per month, plus a variable escalation percentage and a variable fee based upon unit run-hours and starts.

The fixed monthly fee payments are expensed as incurred. The variable payments are classified as prepayments on the statements of financial position and are capitalized as property, plant and equipment if they relate to the replacement of major components, or expensed when such payments occur. While some services are provided ratably throughout the year, the primary cost driver is planned outages at the facility. Variable payments are subject to fluctuations based on the timing and scope of the services being provided.

During 2017, 2016 and 2015, payments, under the LTSA, were $0.4 million, $0.5 million and $0.3 million, respectively; variable payments under such LTSA were $4.3 million, $6.1 million and $3.8 million, respectively.

Future contractual cash payments under the LTSA are as follows:

Year	Amount	
2018	$	397
2019		397
2020		397
Thereafter		397
	$	1,588

e. ECA entered into a service agreement with Turbinas Solar, S. A. de C. V. ("Turbinas Solar") which provides extended service and maintenance for five gas turbines. As of April, 2014 Turbinas Solar assigned this agreement to Servicios de Turbinas Solar, S. A. de C. V. The agreement establishes two main types of services: a monthly fee covers operational support and extended product warranty for $124.4 million and a variable cost based on turbine usage, expensed as incurred, for major turbine maintenance, that will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60-months starting from the date of first beneficial use. During 2013, the Company renegotiated the agreement-terms until 2018.

During 2017, 2016 and 2015, payments under the agreement were $3.6 million. $3.6 million and $1.8 million, respectively. Future contractual cash payments are as follows:

Year	Amount	
2018	$	1,651

f. ECA entered into various technical service and maintenance agreements with third parties. During 2017, 2016 and 2015, payments under such agreements were $8.2 million, $11.6 million, and $9.0 million, respectively. Future contractual cash payments of such commitments are as follows.

Year	Amount	
2018	$	5,825
2019		1,744
2020		1,250
Thereafter		18,000
	$	26,819

g. On January 1, 2013 (with effective date on January 1, 2012), SGEN and TDM entered into an schedule coordination, energy management and related services agreement, with term of 5 years (with possibility to extend the term one more year), for which TDM will continue to deliver all of its power output directly to the CAISO and SGEN provides marketing, scheduling, and dispatch services for TDM, among others. On December 1, 2016 this contract was assigned to Sempra Gas & Power Management LLC.

During 2017, 2016 and 2015, payments under the agreement were \$5.1 million, \$5.5 million and \$4.7 million, respectively. Future contractual cash payments are as follows:

Year	Amount
2018	$ 2,342

h. *International public tender LPI-001/12 and LPI-002/2012 convened by the CFE to enter into contracts for the provision of gas transmission services*.

In October 2012, GAP was awarded by the CFE with two contracts to build and operate an approximately 835 km (500 miles) natural gas pipeline network connecting the northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline. The Northwest gas pipeline will comprised of two segments; the first one is for an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one, is for an approximate length of 330 km, 30-inch pipeline with 510 MMCFPD of transportation capacity. The estimated price per MMCFPD is approximately \$250.0. The Company estimates the total cost of the Northwest gas pipeline will be \$1.0 billion. The capacity of the Northwest gas pipeline is fully contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Northwest gas pipeline, GAP issued 2 irrevocable standby credit letters, for \$90.0 million and \$65.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until November 30, 2039 and until October 31, 2041, respectively.

i. On January 1, 2013, the Company entered into an Information Technology Services Agreement with Sempra Infrastructure (formerly U.S. Gas & Power) (a related party in U.S.). Pursuant to this agreement, Sempra Infrastructure will provide certain software and information technology services, including software, support and security services. The Company pays an approximate annual rate of \$6.8 million. This agreement has an initial term of five years.

j. On February 28, 2013, the Company entered into a Management, Technical and Advisory Services Agreement with Sempra International (a related party in U.S.); pursuant to which Sempra International (directly or through affiliates) will provide with certain support services. The Company paid \$6.5 million, \$8.3 million and \$5.8 million during 2017, 2016 and 2015, respectively.

k. ECO entered into purchase agreement of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MmBtu daily. In 2016, the contract changed from British Petroleum to IEnova Marketing (consolidated affiliate).

l. On August 27, 2015; IEnova Marketing entered into a contract with SGEN, for providing natural gas with maximum contract quantity of 8,100 MmBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and \$0.035/MmBtu from September 1, 2015 until August 31, 2018.

m. On August 20, 2015 IEnova Marketing entered into a contract with Igasamex Bajio S. de R. L. de C. V., for providing natural gas with maximum contract quantity of 8,100 MmBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and $0.07/MmBtu from September 1, 2015 until August 31, 2018.

n. On July 1, 2015 IEnova Marketing entered into a contract with SLNGIH, to transfer 65 percent of profits and losses under the deed of indemnity until August 30, 2029.

o. On February 15, 2001, IEnova Pipelines entered with CFE a contract to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for additional five years. The maximum daily capacity covered by this contract is 60 MMCFPD.

p. On October 22, 2014, IEnova Pipelines entered into a natural gas transportation services contract, under the TF-1 firm transport service scheme with CFE for a firm base reserved capacity of 100 MMCFPD with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

q. On October 22, 2014, IEnova Pipelines entered into an agreement to provide natural gas transportation service under the TI-1 interruptible transport service scheme to CFE for an interruptible capacity of 72 MMCFPD with a regulated rate. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

r. On October 31, 2014, IEnova Pipelines entered into a natural gas transportation services contract, under the TI-2 interruptible transport service scheme with CFE for an interruptible capacity of 50 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

s. On September 28, 2016, IEnova Pipelines entered into a fifth natural gas transportation services amending agreement, under the TF-1 firm transport service scheme with PGPB signed on December 11, 2009, for a firm base reserved capacity of 40 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

t. On September 28, 2016, IEnova Pipelines entered into a fifth natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with PGPB signed on December 11, 2009 for an interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

u. On September 28, 2016, IEnova Pipelines entered the into a fifth natural gas transportation services amending agreement, under the TI-2 interruptible transport service scheme with PGPB signed on December 11, 2009 for a interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year periods. The agreement is currently in effect with Pemex TRI.

v. On December 16, 2014, IEnova Pipelines entered into a second natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with Energia Chihuahua signed on December 21, 2012 for an interruptible capacity of 80 MMCFPD. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

w. GdT executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001, and stipulates a capacity of 1,000, million cubic feet of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations). On January 1, 2016, this agreement was transferred to CENACE.

x. On May 2, 2002, GdT entered into an agreement with Pemex TRI, through which it receives O&M services for natural gas transportation system. This agreement expires 20 years from the computed as the starting date of commercial operation. On January 1, 2016, this agreement was transferred to CENACE.

This agreement was terminated in March 31, 2017, payments under the agreement were $1.8 million.

y. On December 5, 2012, GdT entered into an agreement with Pemex TRI through which it receives compression services based on interruptible by PGPB to GdT, on investment of $4.6 million will be used for the rehabilitation of compression station 19 and PGPB reinstate costs in 75 percent and only paid 25 percent to Pemex TRI. On January 1, 2016 this agreement was transferred to CENAGAS.

z. On December 15, 2005, TDF entered into a LPG transport service contract with Pemex TRI, under firm base capacity reserved of 4,470 MMCFPD equivalent to 30,000 Bbld. This agreement expires 20 years after from COD.

aa. On December 15, 2005, TDF entered into an agreement with Pemex TRI, through which it receives O&M services for liquid gas transport system. This agreement expires 20 years after COD. The agreement is currently in effect with Pemex Logistica.

During 2017, payments during the agreement were $5.2 million. Future contractual cash payments are as follows:

Year	Amount	
2018	$	5,155
2019		5,155
2020		5,155
Thereafter		25,774
	$	41,239

ab. On February 17, 2012, IEnova Pipelines signed a service contract to LPG storage with Pemex TRI. This contract provides base storage capacity reserved of 4,470 MMCFPD to 30,000 Bbld. The contract term is 15 years with a conventional rate, which represents the regulated by the CRE minus 1.2 percent. This contract was given in all rights and obligations, together with all attachments to TdN, by signing an amendment agreement dated on June 18, 2012, between IEnova Pipelines, TdN and Pemex TRI.

ac. On February 21, 2012, TdN entered into an agreement with PGPB, through which it provides operation and maintenance services for the LPG transportation services. This agreement expires 20 years after COD. This agreement is currently in effect with Pemex Logistica.

During 2017, payments during the agreement were $3.1 million. Future contractual cash payments are as follows:

Year	Amount	
2018	$	3,051
2019		3,051
2020		3,051
Thereafter		34,070
	$	43,223

ad. On December 13, 2012, GdS entered into an ethane gas transportation services contract with Pemex TRI. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme for a firm base reserved capacity of: Segment I Cangrejera–Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI–Cangrejera 29,500 BPD, Segment II Nuevo Pemex km 3 66,000 BPD, Segment II Cactus–km 3 38,000 BPD, Segment II km 3–Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex–Nuevo Pemex 105,600 BPD.

ae. On April 16, 2014, GdS entered into an agreement with Pemex TRI, through which it provides operation and maintenance services for the ethane gas transportation services. This agreement expires in 20.5 years after the first segment commercial operational date. This agreement is currently in effect with Pemex Logistica.

During 2017, payments during the agreement were $6.2 million. Future contractual cash payments are as follows:

Year	Amount	
2018	$	6,201
2019		6,201
2020		6,201
Thereafter		85,257
	$	103,860

af. On July 19, 2013, GdN entered into an agreement to provide natural gas transportation services to Pemex TRI. The agreement has a term of 25 years from COD the system with a regulated rate. This contract is under scheme firm transport capacity reserved of 2,100 Mcfd. This contract was transferred to CENACE on January 1, 2016.

ag. On December 15, 2014, DEN celebrated an agreement with TAG to provide O&M services. This agreement expires in 25 years from the pipeline commercial operations.

ah. On January 1, 2016, DEN celebrated an agreement with TAG to provide commercial services for a period equal Natural Gas Transport Permit G/335/TRA/2014 in favor of TAG, starting from the firm contract date.

ai. During the first quarter of 2017, GdN entered into a contract with Distribuidora Megak, to acquire a gas motor-generator for an estimated amount of $5.0 million.

The contract matures in 2018.

aj. On March 30, 2017, Gasoductos Servicios Corporativos y de Administracion, S. de R. L. de C. V. ("GSCA") entered into an agreement with GE Oil & Gas Products and Services, S. de R. L. de C. V. ("GE") for the maintenance of GdT's turbines. This agreement will expire upon the first occur considering the following:

a) The date upon which all covered units have reached their performance end date, or

b) Eight years from the contract effective date.

The estimated cost of this contract amounts to $18.2 million.

In 2017, payments during the agreement were $0.6 million. Future contractual cash payments are as follows:

Year	Amount	
2018	$	3,925
2019		3,061
2020		5,038
Thereafter		5,392
	$	17,416

ak. In 2017, ESJH and ESJRII entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2017, payments under the agreements were $306.0.

Future contractual cash payments are as follows:

Year	Amount	
2018	$	323
2019		306
2020		306
Thereafter		4,902
	$	5,837

al. GSCA and GdT entered into various O&M agreements during 2017. Payments during the agreement were $1.4 million.

Future contractual cash payments are as follows:

Year	Amount	
2018	$	2,746
2019		718
	$	3,464

am. GSC, ESJR III and IG entered into various technical service and engineering, procurement and construction agreements with Gulf Interstate Engineering Company. During 2017 payments under such agreements were $0.2 million. Future contractual cash payments of such commitments are as follows:

Year	Amount	
2018	$	9,710

an. ESJR III entered into an agreement with the Veracruz API as concessionary, for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, Mexico, with an obligation for the Company to pay a fixed fee from 2019 until maturity date in 2037.

Future contractual cash payments of such commitments are as follows:

Year		Amount
2019	$	3,420
2020		3,651
2021		3,898
Thereafter		113,878
	$	124,847

ao. In the fourth quarter of 2017, ESJH, ESJR I and ESJR II entered into various engineering, procurement and construction agreements with third parties for the PIMA Solar Project.

In 2017, payments during the agreement were $3.1 million. Future contractual cash payments are as follows:

Year		Amount
2018	$	123,334

ap. GdS entered into various technical service and maintenance agreements with third parties for the ethane construction. During 2017, payments under such agreements were $2.6 million. Future contractual cash payments of such commitments are as follows.

Year		Amount
2018	$	214
2019		31
	$	245

aq. During 2014, Ventika entered into a 10 to 20-year contract with their customer's shareholders to sell 100 percent of the renewable energy produced from the wind energy project. Such agreement commenced in April 2016 once Ventika started commercial operations.

ar. Ventika has acquired the rights to a 20-year land lease agreement to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 20-year term.

During 2017, payments during the agreement were $0.5 million. Future contractual cash payments are as follows:

Year		Amount
2018	$	476
2019		493
2020		510
Thereafter		10,189
	$	11,668

as. On June 3, 2013, Ventika entered into 5-year O&M agreement with Acciona Energia Servicios Mexico, S. de R. L. de C. V. ("Acciona") which commenced after the commissioning of the last wind turbine units, and covers operation, service and maintenance activities. The agreement can be extended by another 20-year term.

During 2017, payments during the agreement were $7.6 million. Future contractual cash payments are as follows:

Year		Amount
2018	$	6,695
2019		6,695
2020		6,695
Thereafter		2,813
	$	22,898

at. On April 8, 2014, Ventika entered into a 5-year asset management services agreements with Cemex, S. A. B. de C. V. Payments under the agreement consist of an annual fixed fee plus a variable administration commission.

During 2017, payments during the agreement were $5.0 million. Future expected payments for Ventika are as follows:

Year		Amount
2017	$	5,240
2018		5,308
2019		5,379
Thereafter		3,484
	$	19,411

au. On May 1, 2008, IEnova Marketing entered into a contract with MGI Supply, LTD ("MGI"), to purchase the gas natural transportation capacity in the North Baja System. The acquired capacity is 210 Dth/d. The contract term is for 14 years (ends on August 31, 2022).

av. On February 1, 2013, IEnova Marketing entered into a Scheduling Agreement with SG&PM; the agreement ends on December 31, 2022. The objective of the agreement is engage the service of SGEN to supply natural gas at the delivery points of SG&PM.

aw. On November 24, 2016, IEnova Marketing entered into a purchase natural gas capacity agreement with SG&PM, to guarantee the ongoing Supply Agreements signed with several customers. The acquired capacity is variable and the average maturity is less of 5 years.

ax. On January 1, 2013 and September 1, 2014, IEnova Marketing entered into two natural gas purchase agreement with SLNGI. The agreements ends on August 20, 2029 and December 31, 2022, respectively (equivalent to 16.6 years and 8.3 years respectively). The acquired capacities are 188,000 MMBtu/Year and 400 MMBtus/Day, respectively.

36. Contingencies

36.1. Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de Administracion Tributaria, "SAT" by its initials in Spanish), during a review, believes that prices and amounts used by the Company are not similar to those used with or between independent parties in comparable transactions.

36.2. Judicial, administrative or arbitral proceedings

The Company may become involved in litigation and administrative proceedings relating to claims arising out of its operations and properties. These may include claims filed by suppliers and customers, federal, state or local governmental authorities, including tax authorities, neighboring residents and environmental and social activists, as well as labor disputes. Other than as described below, there are no material governmental, legal or arbitration proceedings against the Company which may have a material adverse effect on its business, financial position or results of operations:

Matters on ECA

a. *Motions for review (recurso de revision) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdez Castañeda ("Castro* and *Valdez"),* jointly, and Monica Fabiola Palafox ("Palafox"), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaria de Medio Ambiente y Recursos Naturales, SEMARNAT)* to challenge the issuance of the MIA to the ECA Terminal granted in April 2003, based on allegations similar to IVG's allegations. SEMARNAT dismissed the motions and the plaintiffs filed before the Federal Court of Tax and Administrative Justice *(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA),* in Mexico city, motions for annulment against the respective rulings. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdez, SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdez filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a motion against the ruling whereby the TFJFA ordered the admittance of the motion filed by *Valdez.* In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdez and Palafox are unfounded.

   Finally, against the resolution of dismissal Roberto Valdes filed an annulment proceeding that was resolved denying the annulment to the complainant by means of a judgment published in January 2017.

b. Motion for annulment *against ECA's port concession, filed by Inmuebles Vista Golf ("IVG").* In January 2005, IVG filed before the Ministry of Communications and Transport *(Secretaria de Comunicaciones y Transportes, "SCT")* a motion for annulment regarding ECA's port concession, which authorizes ECA to use the national port facilities for its maritime operations. IVG argued that the SCT should have applied certain environmental requirements regarding the authorization of the port concession to ECA and that the activities performed by ECA's Terminal are not attributable to the SCT, as well as that ECA did not perform any environmental risk assessment and that the SEMARNAT amended the MIA without notifying such circumstance to the SCT. In March 2005, the SCT dismissed such motion and IVG filed before the TFJFA in Mexico City a motion for annulment against the respective ruling. In March 2010, the TFJFA issued a judgment declaring null and void the ruling whereby the SCT dismissed the motion for review and ordering the latter to admit such motion. In May 2011, the SCT issued a new agreement dismissing the motion once again. In August 2011, IVG filed a second motion for annulment before the TFJFA, confirming its previous arguments and arguing, besides, that the SCT is not empowered to issue the ruling.

ECA challenged the ruling whereby the TFJFA admitted the second motion for annulment based on the fact that IVG's claims were resolved during the previous motion. In June 2012, the TFJFA agreed with such argument and dismissed the second motion for annulment filed by IVG. IVG filed a constitutional claim *(amparo)* before the Federal Courts, against the last ruling of the TFJFA. The answer to such claim was made by the Company on August 27, 2012. The SCT and ECA's Terminal answered such claim. During 2013, IVG filed a constitutional claim before the Federal Courts, against the dismissal of the motion before the TFJFA, protection which was granted reversing the dismissal of the motion for annulment. The motion for annulment is pending and therein both the SCT and the ECA Terminal have already answered the claim.

As to the motion for revocation *(recurso de revocacion)* against the port concession granted to ECA before the Ministry of Communications and Transports ("SCT"), regarding the port concession for purposes of its maritime operations, the Company reports the following:

On February 19, 2015, a Collegiate Court ruled favorably to ECA's interests, denying the constitutional claim filed by Vista Golf against the ruling of the Federal Court of Tax and Administrative Justice, also issued in favor of ECA's interests.

Therefore, on April 24, 2015, the Federal Court of Tax and Administrative Justice concluded the nullity trial fully and the judgment issued in favor of ECA is in consequence definitive.

c. *Motion for review against MIA of ECA's Terminal, filed by Inmuebles Baja Pacifico, S.A. de C.V. ("IBP").* In 2006, IBP started an action / "popular claim" before the Federal Attorney General Office of Environmental Protection *(Procuraduria Federal de Proteccion al Ambiente, "PROFEPA")* arguing that the conditions and relief measures set forth in the authorization of environmental impact would be insufficient and that the operation of ECA's Terminal would cause a damage to the environment, seeking, among others, the order to amend or annul the referred Authorization in the Subject of Environmental Impact. The proceedings ended in 2006 in favor of ECA. IBP filed a motion for review against such ruling, resolving it grounded and ordering the issuance of a new resolution assessing the evidence of IBP and resolving on the compliance of the environmental legislation.

In compliance to the rulings in the motion for review, PROFEPA performed inspections on ECA's Terminal and it determined that its operations comply with the determinants and relief measures imposed in the authorization in the subject of environmental impact and they do not cause damage to the environment. Such resolution was challenged by IBP through the proceeding for annulment *(juicio de nulidad)* before the Federal Court of Tax and Administrative Justice ("TFJFA"), which in August 2013 declared the nullity of the challenged resolution considering that the authority did not ground duly its territorial competence and it ordered PROFEPA to issue a new resolution considering the evidence delivered by IBP setting forth why they would be insufficient to prove the breach of the applicable legislation. Against TFJFA's ruling, both IPB and ECA filed constitutional trials, respectively, which were resolved in February 2015 determining to dismiss the constitutional claim brought by IPB and grant protection to ECA under the consideration that IBP lacks of *standi*/legal interest to challenge through proceeding for annulment the resolution of the popular claim, ordering the TJFFA the issuance of a new resolution in congruence.

In such circumstances, and given the resolution in the constitutional trial, in July 2015 the TFJFA issued a new resolution dismissing IBP's proceeding. In November 2015, the TFJFA determined that its judgment of July 2015 was definitive, being fully concluded in favor of ECA.

d. *Constitutional Claim filed by Ramon Eugenio Sanchez Ritchie ("Sanchez Ritchie").* In June 2010, *Sanchez Ritchie* filed a constitutional claim in the Collegiate District Court of the State of *Baja California,* Mexico, challenging the validity of all the permits and authorizations related to the construction and operation of ECA's Terminal. The motion of *Sanchez Ritchie* named as defendants 17 governmental agencies, including SEMARNAT, CRE and the Municipality of *Ensenada*, among others. Although the first permits of ECA's Terminal were issued more than six years before its filing, Sanchez Ritchie claims that the operation of ECA's Terminal would impair its rights as alleged owner of the property adjacent to ECA's Terminal (which is disputed by ECA) and that ECA's permits were granted in breach of its rights.

Sanchez Ritchie claims the payment of damages and the order to the defendant authorities to revoke the permits for ECA's Terminal. On June 17, 2010, the District Court issued an interim judgment ordering the different authorities to suspend ECA's permits, but such provisional order was revoked by the Circuit Court on June 24, 2010 before the governmental authorities answered. Each one of the governmental authorities named in the constitutional claim denied the charges and affirmed the validity of their respective permits and authorizations. The allegations hearing of Sanchez Ritchie has been adjourned due to the filing of many remedies and other procedural acts. In May 2012, the case was submitted to the Collegiate District Court of Tijuana and an issuance date of the interim judgment regarding the admissibility of the constitutional claim has not been set. The Company deems that the claims of Sanchez Ritchie are unfounded.

The constitutional hearing in the issue was held on December 8, 2014.

On February 16, 2015, the Third District Court in the subject of constitutional trial and federal trials in the State of Baja California issued a resolution whereby it dismissed the constitutional trial. Ramon Eugenio Sanchez Ritchie filed a direct constitutional claim and it is pending of resolution in the First Collegiate Court. In September 2016, the Collegiate Court resolved the matter definitively, confirming the decision of the District Judge in favor of ECA.

e. *Municipal claim filed by Sanchez Ritchie*. In February 2011, Sanchez Ritchie filed a complaint before the Directorate of Urban Control (Direccion de Control Urbano, DCU) of the Municipality of Ensenada, in Baja California, Mexico, arguing the invalidity of the zoning and construction permits granted to ECA's Terminal in 2003 and 2004, respectively. Although the Municipality had ratified the validity of the permits in its answer to the constitutional claim of Sanchez Ritchie described above, shortly after receiving the complaint, the DCU issued an order of temporary closing and immediate cessation of operations. The actions of the authorities of the state and federal government prevented the interruption of the operations of the terminal, while ECA filed an answer to the administrative complaint before the DCU as well as a constitutional claim before the Collegiate District Court in Ensenada. In March 2011, the District Court granted the suspension of the closing order until the resolution of ECA's constitutional claim, which was confirmed by the Collegiate Circuit Courts in Mexicali. As informed on April 28, 2014, on such date the Municipality of Ensenada declared itself incompetent to deal with, transact, continue with the transaction and, at the time, resolve the proceedings started in 2011 by Ramon Eugenio Sanchez Ritchie. Therein, the authority resolved to rescind the acts in the administrative proceedings, including the closing order, ordering to close the file as a fully and duly concluded issue. The referred memorandum was eventually challenged before an Administrative Court by Sanchez Ritchie, which was resolved favorably to the interests of ECA. The resolution mentioned above was not challenged because the issue was fully concluded and the judgment in favor of ECA is, in consequence, definitive.

f. *Saloman Arya Furst* and *Abraham Hanono Raffoul* filed before the Unitary Agrarian District Court of *Ensenada* a claim against the Ministry of Agrarian Reform *(Secretaria de la Reforma Agraria),* ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA's Terminal is located, as well as the return of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the ECA's former owners were issued improperly and without considering the existing property rights of such immovable property. In September 2011 was held a definitive hearing on the subject, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before issuing the judgment, the plaintiffs filed a constitutional claim against the refusal of the judge to the admittance of the evidence. The action of the judge is suspended by the constitutional claim, and, the constitutional trial cannot continue until the Court serves notice of the civil claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

After several adjourned hearings, on June 9, 2015 the parties were duly notified of these proceedings. On that same date, the hearing was held, during which the disputed issues were set and the evidence of all the parties was offered. Given the amount of evidentiary material, the Court reserved the right of study and assessment thereof to subsequently set a new date of hearing.

It was held on September 2015 where there was no resolution, later it was programmed the relief of an expert test in the field for the November 3, 2016. This test was released and to the date was submitted to the Agrarian Court.

On November 3, 2017, a diligence for inspection and study in the field was carried out by various experts offered by the litigants. To date all experts have surrendered their respective opinions. The Agrarian Court has ordered the issuance of an expert opinion of a third party in dispute and is requesting the Superior Agrarian Court, the appointment of an expert for this purpose

g. Criminal Investigation. In May 2009, Sanchez Ritchie filed before the Attorney General Office of Ensenada a criminal complaint arguing that “Sempra’s affiliates”, several employees of ECA’s Terminal and several former employees of such Office committed the crime of procedural fraud as to a criminal complaint filed by ECA, which owns ECA’s Terminal against Sanchez Ritchie in 2006 as part of the conflict related to the possession of an immovable property adjacent to ECA’s Terminal, which is property of the Company. In September 2006, ECA accused Sanchez Ritchie of the crime of dispossession for having trespassed ECA’s immovable property. As part of such proceedings, the public prosecutor issued a provisional order to remove Sanchez Ritchie from the immovable property. In the criminal complaints filed in 2009, Sanchez Ritchie argued that ECA and the other defendants provided false information to obtain such order. The public prosecutor responsible of the case determined that there was not enough evidence to prosecute the defendants and closed the investigation; and in March 2011, the criminal court of Tijuana ratified the withdrawal of the action. In September 2011, Sanchez Ritchie filed a constitutional claim against the respective ruling before the Collegiate District Court of Ensenada. The hearing to analyze the substantive aspects of the constitutional claim was held in March 2012 and in July 2012 the judge granted the protection regarding the omission in the study, by the criminal judge, of certain evidence and arguments submitted by Sanchez Ritchie. The district judge ordered the criminal judge to issue a new resolution considering such issues. ECA’s Terminal appealed the resolution in the Federal Circuit Court, which as of December 31, 2015 had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.

h. Motion for review against the authorizaiton of environmental impact for ECA’s Terminal, filed by Inmuebles Vista Golf. In May 2003, Inmuebles Vista Golf, S.A. de C.V. filed before SEMARNAT a motion for review against the resolution issued by such authority in April 2003, whereby it granted to the Company the authorization of environmental impact for ECA’s Terminal. Inmuebles Vista Golf argues that SEMARNAT did not give the necessary notices and did not abide by the applicable proceedings to grant such authorization; that the activities of ECA’s Terminal are of industrial nature and, therefore, they do not meet the provisions in the Regional Development Program of the Coastal Corridor Tijuana-Rosarito-Ensenada (known as COCOTREN); and that the conditions and relief measures set forth in the authorization were insufficient. In August 2003, SEMARNAT dismissed such motion and in December 2003 Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against the respective ruling. In April 2005, the TFJFA issued a ruling declaring the nullity of the respective ruling, therefore SEMARNAT continued the motion for review and in July 2006 resolved it confirming the validity and legality of the authorization of environmental impact. In October 2006, Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against SEMARNAT’s respective resolution. In December 2010, TFJA confirmed the validity and legality of the resolution through which SEMARNAT confirmed the validity and legality of the authorization of environmental impact. Against TFJFA’s resolution, Inmuebles Vista Golf filed a direct constitutional trial before the Collegiate Circuit Court in the Federal District. The constitutional trial was resolved through resolution of April 2012, whereby was granted the protection for the TFJFA to assess all the evidence provided by the parties, specifically the expert evidence in trial. In August 2012, the TFJFA issued a new ruling ratifying once again the validity of the authorization of environmental impact and the sufficiency of the conditions and relief measures to prevent the damages to the environment set forth therein. Inmuebles Vista Golf filed a new constitutional claim against the judgment of August 2012 of the TFJFA, on the other hand, ECA filed an adjacent constitutional claim.

In May 2013, the First Chamber of the Supreme Court of Justice of the Nation decided to intervene in the constitutional claim filed by Inmuebles Vista Golf. In a public hearing held on February 7, 2014, the First Chamber of the Supreme Court of Justice of the Nation resolved to "dismiss the constitutional trial and leave the adjacent constitutional claim without subject", therefore the affair is fully concluded in favor of ECA.

i. On September 8, 2016, in the First Collegiate Court of the XV Circuit, unanimously and definitively overruled the resolution previously issued by the Third District Court and Federal Proceedings of Baja California, in connection with the constitutional appeal filed by Sanchez Ritchie in which he challenged the effectiveness of all permits and authorizations related to the construction and operation of the natural liquefied gas storage and regasification terminal property of its subsidiary ECA, located at Ensenada, Baja California. On October 19, 2016 Sanchez Ritchie overruled resolution on the constitutional appeal was ratified by the corresponding authorities, closing this case.

Matters on ESJ

a. In November 2011, *Terra Peninsular, A.C.* ("TP"), an environmental organization, filed before the TFJFA of Mexico City a motion for review against the resolution whereby SEMARNAT granted to ESJ the authorization of environmental impact for the construction and operation of ESJ wind farm. TP argues that it did not receive notice of such resolution; and that the MIA was not assessed pursuant to the applicable legislation, since otherwise, SEMARNAT would have denied such authorization. However, TP does not specify the laws or regulations that were not duly applied. Besides of the foregoing, TP argues that the different stages of the project should require independent authorizations; and that the granting of a conditional authorization for the development of future states which have not been fully defined is insufficient to protect the environment. The TFJFA denied the suspension order requested by TP, but admitted the claim. ESJ and SEMARNAT filed their respective answers to the claim in June 2012, arguing that the motion filed by TP is untimely and that the MIA was duly granted. The judge has admitted the experts brought by the parties and ESJ's and SEMARNAT's experts have submitted their expert opinions. The request filed by TP for the final suspension was denied by the TFJFA, resolving that the evaluation from SEMARNAT was carried out under the applicable legislation.

Terra Peninsular fought that resolution through the corresponding appeal, which did not prosper, the refusal having been confirmed. Due to the importance of the matter, it was referred to the Superior Court of the TFJFA, which in a public session, unanimously by the votes of its judges, decided to dismiss the trial because it was promoted extemporaneously. Terra Peninsular may challenge such decision. To date is pending to notify Terra Peninsular the ruling of the Superior Court, this is because it is not located in the address indicated for such purposes, so it will be notified by judicial bulletin.

The operations of ECA's Terminal, TDM's plant ad ESJ's wind farm have not been affected as a result of the proceedings described above and they continue operating normally during the process thereof. However, if any of such proceedings was resolved unfavorably for the Company, the operations of ECA's Terminal and/or TDM's generating plant might be affected adversely and significantly, which in turn might have a significant adverse effect on the activities, perspectives, the financial position, the operation results and the cash flows of the Company.

Except for the affairs stated above, neither the Company nor its assets are subject to any other legal action different from those arisen in the normal course of business.

37. Application of new and revised International Financial Reporting Standards

a. ***Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") that are mandatorily effective for the current year***

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

Amendments to IAS 7 Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how the company should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

Annual Improvements to IFRSs 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year.

IFRS 12 states that a company not need provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

b. ***New and revised IFRSs in issue but not yet effective***

The Company has not applied the following new and revised IFRS that have been issued but have not entered force:

- IFRS 9, *Financial Instruments* (1)
- IFRS 15, *Revenue from Contracts with Customers* (1)
- IFRIC 22, *Interpretation of Foreign Currency Transactions and Advance Consideration* (1)
- Amendments to IAS 40, *Investment Property* (1)
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures (2)*
- Deferral Effective Date of Amendments to IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Join Ventures* (2)
- IFRS 16, *Leases* (3)
- IFRS 17, *Insurance Contracts* (4)
- IFRIC 23, *Uncertainty over Income Tax Treatments* (3)

(1) Effective for annual periods beginning on or after January 1, 2018.
(2) Effective date is deferred indefinitely, early adoption of the September 2014 amendments continues to be permitted.
(3) Effective for annual periods beginning on or after January 1, 2019
(4) Effective for annual periods beginning on or after January 1, 2021

IFRS 9 ***Financial Instruments***

IFRS 9, "*Financial Instruments*" issued in July 2014, is the replacement of IAS 39 "*Financial Instruments: Recognition and Measurement*". This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or Fair Value Through the Statement of Other Comprehensive Income ("FVTOCI"), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

With regards to the new IFRS 9 "Financial Instruments", the three phases in the standard were evaluated:

1.- Classification and measurement: the new standard introduces a new model for the classification of all types of financial assets, including those that contain implicit derivatives. With this model, the financial assets are classified in their entirety, instead of being subject to complex bifurcation requirements. Concerning the classification of financial liabilities, the IFRS 9 keeps all of the current IAS 39 requirements, the only change contemplated regarding the financial liabilities is linked to recognizing the changes in the own credit risk that is required to be presented as part of OCI.

The outcome of the evaluation of the following criteria will determine the way in which the financial asset must be classified and, thus, the basis of its measurement subsequent to the classification:

a) Determination of the Business Model

The Business Model refers to how the Company manages the financial asset activities to generate cash flows that flow directly to the Company either through the mere collection of contractual cash flows, the sale of the financial asset or through both activities.

The determination of the Business Model is handled at a level that reflects how a financial asset or group of financial assets are managed to meet a particular objective and not through an assessment of individual instruments, and it does not depend on the intentions of Management on the financial asset, but on its actual use.

A company may have more than one Business Model to manage their financial assets depending on the characteristics of the financial asset and, above all, the use that the Management makes on that financial asset to achieve its business goal.

In this regard, the Company is in the process of documenting its Business Model regarding the financial assets that the Company has, and it does not expect to change its current classification and, therefore, the measurement of the corresponding financial instruments.

b) Characteristics of the contractual cash flows

IFRS 9 requires that contractual cash flows represent only payments of the principal and interest, whose characteristics are consistent with those of a basic loan agreement in which the consideration of the time value of money and those related to credit risk are the most important elements of the evaluation; however, if the contractual terms of the financial asset include exposures to risk and volatilities in the contractual cash flows that are not related to a basic loan agreement, cash flows linked to such a financial asset do not represent the principal and interest.

Leverage may be a feature of contractual cash flows in some financial assets which increases the variability of cash flows, resulting in different characteristics to those of interest.

The Company believes that the contractual cash flows associated with its financial instruments represent mainly the recovery of the principal only, in some cases, and in others, only the principal and interest, as per the new standard; therefore, the Company has not identified possible effects associated with this criterion.

2.-Impairment: This phase describes a "three-stage" model ("overall model") for impairment based on credit quality changes from the initial recognition.

a) Phase 1 includes the financial instruments that have not had a significant credit risk increase from the initial recognition or (at the company's discretion) that have a low credit risk at the reporting date. For these assets, expected credit losses ("ECL") are take into account at 12 months, and interest income is calculated on the gross book value of the asset amount (i.e., without deduction for impairment). The 12-month ECL are those resulting from the default events that are possible within 12 months from the date of the report. It is not the expected cash deficit during the 12-month period, but the total credit loss of an asset, weighted by the probability that the loss occurs in the next 12 months.

b) Stage 2 includes financial instruments that have had a significant increase in the credit risk from the initial recognition (unless they have a low credit risk at the reporting date and this is the option taken by the company), but do not have objective evidence of impairment. For these assets, expected credit losses are recognized for life, but the interest income is calculated on the gross book value of the asset amount. The ECL for life are those resulting from all the possible events of non-compliance during the maximum contractual period in which the Company is exposed to the credit risk. The ECL are the weighted average credit losses, with the respective risks of a weighted default.

c) Phase 3 includes the financial assets that have objective evidence of impairment at the reporting date. For these assets, the expected credit losses are recognized for life, and the interest income is calculated on the net book value amount (i.e. the net impairment estimate).

At the date of issuance of these financial statements, the Company is in the phase 1 and according to the assessment carried out on its type of transactions with the client, it was concluded that in its approach to risk assessment of clients there would be no significant impact with the new requirements of the new standard, and since the behavior of its clients has shown no risk indicators, the Company believes that the expected loss approach that the new standard sets will not result in a change in its estimates of impairment. Even when this standard comes into effect on January 1, 2018 with retrospective application, the Company would apply this standard from January 1, 2018 because it turned out to be impractical to carry out the assessment on a retrospective basis from the last reporting period.

3 Accounting for Hedges: The IFRS 9 provides an accounting policy option which establishes that the entities may continue to apply the hedge accounting requirements in IAS 39, waiting for the end of the macro project risk coverage, or they may apply the IFRS 9. This choice of accounting policy will be applied to the entire hedge accounting portfolio and cannot be performed on a hedge by hedge. In this regard, the Company has chosen to continue using IAS 39.

This choice of accounting policy is applied only to the application of hedge accounting and has no impact on the implementation of the other two phases of IFRS 9, namely, "Classification and Measurement" and "Impairment".

The new standard also introduces disclosure requirements and changes in the presentation. It is expected to impact the nature and extent of the disclosures about financial instruments, particularly in the year of the adoption of the new standard.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. In applying the revenue model to contracts within its scope, a company will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the company satisfies a performance obligation. Also, a company needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Clarifications to IFRS 15, *Revenue from Contracts with Customers*

These clarifications address (1) identifying performance obligations, (2) principal-versus-agent considerations, and (3) licensing. The amendments also provide some transition relief for modified contracts and completed contracts. Specific provisions of the amendments include the following: Identifying performance obligations - Clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Principal-versus-agent considerations - Extension of the application guidance. Licensing - Clarification of whether an entity's promise to grant a license of its IP should be recognized as revenue at a point in time or over time based on whether the licensor's ongoing activities significantly affect the IP. Transition relief - Two additional (optional) practical expedients. The amendments are effective for annual reporting periods beginning on or after January 1, 2018, which is the same effective date as that of IFRS 15. Earlier application is permitted.

The Company has evaluated the recognition and measurement of revenue according to the five-step model in the IFRS 15 and has not identified any significant financial impact, so that there will be no significant adjustments after its adoption. The Company chose to adopt the new standard as of January 1, 2018 by applying the modified retrospective method of adoption. The Company has not adopted in advance any interpretation or amendment that has been issued but not yet effective.

Revenue from contracts with clients are classified along the following lines:

Revenue from tariff transportation services
Revenue from capacity services in pipelines
Revenue from storage services of natural and LP gas
Revenue from distribution services of natural gas
Revenue from administrative services
Revenue from generation of wind energy
Revenue from sale of electric power

These revenues are obtained independently in contracts with each of its clients, with possible renewals according to the contractual terms. Currently, the Company recognizes the income for services and for the generation of wind energy and electric power when such services are rendered or when they are delivered and accepted by the client, according to the programs established in the contracts. According to IFRS 15, the allocation of these revenues will be made on the basis of independent sales prices as set out in the contracts and on the basis of what was incurred; therefore, the allocation of the consideration and, consequently, the timing of revenue recognition would not be affected by the adoption of IFRS 15.

On the other hand, the Company concluded that energy services and delivery are met over time, given that the client receives the benefits provided by IEnova through the period in which the contract remains in force. Consequently, according to IFRS 15, the Company would continue recognizing revenue from service contracts over time rather than at a point in time.

Presentation and disclosure

The new presentation and disclosure requirements of IFRS 15 are more detailed than in the current guidance, therefore, the Company concluded that this is a relevant change, because it significantly increases the volume of disclosures required in the Company's Consolidated Financial Statements.

Many of the disclosure requirements in IFRS 15 are new and IEnova has evaluated that the impact of some of these requirements will be significant. In particular, IEnova hopes that the notes to the Condensed Interim Consolidated Financial Statements will be extended due to the disclosure of significant judgment: when determining the price of transactions, how the transaction price is assigned to performance obligations and the assumptions used in the estimation of independent sales prices of each performance obligation. During 2017, IEnova development tests in their systems to adapt them to the new IFRS 15 requirements, as well as their internal control and accounting policies.

IFRIC 22 ***Interpretation of Foreign Currency Transactions and Advance Consideration***

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized.

Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company is evaluating the new standard and no significant financial impact has been identified.

Amendments to IAS 40 ***Transfers of Investment Property***

These amendments to the guidance in IAS 40 on transfers of property to or from investment property.

Specifically, the amendments revise paragraph 57 of IAS 40 to state that "a company shall transfer a property to, or from, investment property when, and only when, there is a change in use." The amendments further clarify that a "change in use occurs when the property meets, or ceases to meet, the definition of investment property" and that a "change in management's intentions for the use of a property does not provide evidence of a change in use." The amendments are effective for periods beginning on or after January 1, 2018; early adoption is permitted.

The Company is evaluating the new standard and no significant financial impact has been identified.

Amendments to IFRS 10 ***Consolidated financial statements and IAS 28 Investment in Associates and Join Venture***

Amendments to IAS 28 require that gains and losses resulting from transactions between a company and its associate or joint venture relate only to assets that do not constitute a business. As well, a new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between a company and its associate or joint venture must be recognized in full in the investor's financial statements.

Additionally, a company needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

On the other hand, for consolidated financial statements, an exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

IASB Defers Effective Date of September 2014 Amendments IFRS 10 ***Consolidated financial statements and IAS 28 Investment in Associates and Join Venture***

The amendments that indefinitely defer the effective date of its September 2014 amendments to IFRS 10 (on consolidated financial statements) and IAS 28 (on investments in associates and joint ventures), which address how a company determines any gain or loss related to transactions with an associate or joint venture.

The IASB plans to redeliberate the effective date of the September 2014 amendments after it has completed its research project on the equity method. Early adoption of the September 2014 amendments continues to be permitted.

The Company is evaluating the new standard and no significant financial impact has been identified.

IFRS 16 *Leases*

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

Regarding the transition methodology to be used, the Company will be using the modified retrospective method.

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. IFRS 1 deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant. Also the amendments clarify that the disclosure requirements of IFRS 12 apply to interests in entities that are classified as held for sale, except for the summarized financial information.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

The Company does not anticipate that the application of the amendments in the future will have any impact on the Company consolidated financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organization.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement of IFRS 4 *Insurance Contracts.* It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: 1) discounted probability-weighted cash flows, 2) an explicit risk adjustment, and 3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying, the variable fee approach the Company's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is applied for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted for entities that apply IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

The Company is in the process of evaluating the potential effects of implementing this new standard in its financial information.

IFRIC 23 Uncertainty over Income Tax Treatments

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 "Income taxes" when there is uncertainty over income tax treatments. Uncertain tax treatments are a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, a company shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

A company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

The Company's is in process of assessment of potential effects that could generate the implementation of these changes if any applicable.

38. Events after reporting date

a. ***Withdrawals of credit line.***

On January 4, 2018, February 6, 2018 and February 27, 2018 regarding the credit line mentioned in Note 21.a. the Company withdrew $65.0 million, $135.0 million and $25.0 million, respectively, to be used for working capital and general corporate purposes.

b. ***Execution of Standby Letter of Credit Facility and Reimbursement Agreement***

On January 22, 2018, in order to make more efficient and standardize the process for the issuance of letters of credit requested by governmental entities or third parties with whom it contracts, IEnova executed, together with a bank syndicate formed by Banco Nacional de Mexico, S. A., SMBC, Bancomer, Scotiabank Inverlat, S. A., Mizuho, BNP Paribas and Santander, entered into a letter of credit facility and reimbursement agreement, up to an amount equivalent to $1.0 billion U. S. Dollars which will be in effect for five years (the"LOCF").

i. The foregoing, among other things, will allow IEnova to expedite the administrative processes for the issuance or renewal of standby letters of credit and to have a unique process for the issuance of all its standby letters of credit.

ii. The LOCF and the standby letters of credit issued under the same do not constitute IEnova's debt.

The issuance costs of the aforementioned LOCF amounts $1.5 million U. S. Dollars.

c. ***Veracruz marine terminal and in-land terminal projects***

On January 8, 2018 ESJR III paid the remaining 50 percent of a counter-payment fee equivalent to the amount in Mexican Pesos for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, the counter-payment amounts to $500.0 million Mexican Pesos, (Please refer to Note 1.2.10.e.).

d. ***CEBURES***

On February 8, 2018, the Company made the repayment of the public debt issuance, CEBURES of the second placement for an amount of $1,300.0 million of historical Mexican Pesos. (Please refer to Note 23.a.ii.)

For this debt maturing in 2018, the Company swapped fixed rate in Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments that were realized on this date, the Company received $1,300.0 million of Mexican Pesos and paid $102.2 million U. S. Dollars. This payment ended the hedged contracted and the CEBURES liability (Please refer to Note 23.a. and 23.b.).

e. ***Long-term electric supply contract***

On February 28, 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of El Puerto de Liverpool, S. A. B. de C. V. ("Liverpool"). The electricity will be generated by a new solar power plant that will be located in the municipality of Benjamin Hill in the State of Sonora, Mexico. The plant will have the capacity to supply Liverpool and other large energy consumers. The Company will be responsible of the development, construction and operation of the project that will have a capacity of 125 MW with an investment of approximately $130.0 million. The beginning of commercial operations is expected to occur in the second half of 2019.

f. ***Capital contribution to IMG***

On February 28, 2018, the Company made a capital contribution of $24.8 million to IMG.

39. Approval of Financial Statements

The accompanying Consolidated Financial Statements were authorized for issuance on March 1, 2018, by Manuela Molina Peralta, Chief Financial Officer, and subject to the approval of the Management Board and the ordinary shareholders of the Company, who may be modified in accordance with the provisions of the General Law of Commercial.

40. Registered offices

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juarez, C.P. 06600
  Mexico, D. F.
- Campos Eliseos No. 345 Piso 4
  Torre Omega
  Col. Chapultepec Polanco C.P. 11550
  Mexico, D. F.
- Carretera Escenica Tijuana – Ensenada km. 81.2
  Col. El Sauzal, C. P. 22760
  Ensenada, B.C.
- Carretera Mexicali Tijuana km. 14.5
  Col. Sonora, C. P. 21210
  Mexicali, B.C.
- Avenida Tecnologico No. 4505
  Col. Granjas, C. P. 31160
  Chihuahua, Chih.
- Boulevard Francisco Eusebio Kino No. 309
  Piso 10, Col. Country Club
  Hermosillo, Sonora
- Carretera Federal Cuota 15D, km 461 820,
  San Roman Corralillos, CP 45464
  Guadalajara, Jalisco
- Avenida Constitucion Poniente No. 444
  Col. Monterrey Centro C. P. 64000
  Monterrey, Nuevo Leon

* * * * * *

“Pro forma additional information”

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Pro forma Combined Statements of Financial Position

As of December 31, 2016
(In thousands of U.S. Dollars)

	As of December 31, 2016				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries (Note 4(1))	Ductos y Energeticos del Norte, S. de R. L. de C. V. (Note 4(2))	Pro Forma Adjustments (Note 5)	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Assets					
Current assets:					
Cash and cash equivalents	$ 24,918	$ 8,819	$ —		$ 33,737
Short-term investments	80	—	—		80
Trade and other receivables, net	100,886	—	—		100,886
Due from unconsolidated affiliates	12,976	5,101	(6,844)	a	11,233
Finance lease receivables	7,155	—	—		7,155
Income taxes receivable	6,390	—	—		6,390
Natural gas inventories	6,083	—	—		6,083
Derivative financial instruments	6,913	—	—		6,913
Value added tax receivable	27,600	—	—		27,600
Other assets	9,289	107	—		9,396
Restricted cash	51,363	—	—		51,363
Assets held for sale	191,287	—	—		191,287
Total current assets	444,940	14,027	(6,844)		452,123
Non-current assets:					
Due from unconsolidated Affiliates	104,352	3,080	(93,016)	a	14,416
Derivative financial instruments	1,127	—	—		1,127
Finance lease receivables	950,311	—	—		950,311
Deferred income tax assets	75,999	17,364	1,227	b	94,590
Investment in joint ventures	125,355	155,328	117,729	a, c	398,412
Other assets	4,855	—	—		4,855
Property, plant and equipment, Net	3,614,085	1,689	(2,530)	c	3,613,244
Intangible assets	154,144	—	32,508	c	186,652
Goodwill	1,651,780	—	—		1,651,780
Total non-current assets	6,682,008	177,461	55,918		6,915,387
Total assets	$ 7,126,948	$ 191,488	$ 49,074		$ 7,367,510

	As of December 31, 2016				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries (Note 4(1))	Ductos y Energeticos del Norte, S. de R. L. de C. V. (Note 4(2))	Pro Forma Adjustments (Note 5)	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Liabilities and Stockholders' Equity					
Current liabilities:					
Short-term debt	$ 493,571	$ —	$ 258,920	a, b	$ 752,491
Trade and other payables	94,566	505	—		95,071
Due to unconsolidated affiliates	260,914	5,755	(10,967)	a	255,702
Income tax liabilities	13,322	—	—		13,322
Derivative financial instruments	10,310	—	—		10,310
Other financial liabilities	5,877	—	—		5,877
Provisions	930	—	—		930
Other taxes payable	27,872	140	—		28,012
Other liabilities	28,861	—	—		28,861
Liabilities related to assets held for sale	35,451	—	—		35,451
Total current liabilities	971,674	6,400	247,953		1,226,027
Non-current liabilities:					
Long-term debt	1,039,804	—	—		1,039,804
Due to unconsolidated affiliates	3,080	179,872	(182,952)	a	—
Deferred income tax liabilities	489,607	—	—		489,607
Provisions	51,035	—	—		51,035
Derivative financial instruments	215,851	—	—		215,851
Employee benefits	5,586	—	—		5,586
Total non-current liabilities	1,804,963	179,872	(182,952)		1,801,883
Total liabilities	2,776,637	186,272	65,001		3,027,910
Stockholders' Equity:					
Common stock	963,272	331	(331)	a	963,272
Additional paid-in capital	2,351,801	—	—		2,351,801
Accumulated other comprehensive (loss) income	(126,658)	(3,097)	1,549	a	(128,206)
Retained earnings	1,161,896	7,982	(17,145)	a	1,152,733
Total equity	4,350,311	5,216	(15,927)		4,339,600
Total liabilities and equity	$ 7,126,948	$ 191,488	$ 49,074		$ 7,367,510

See accompanying notes to the Pro forma Combined Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Pro forma Combined Statements of Profit

For the twelve-month period ended December 31, 2016
(In thousands of U.S. Dollars)

	Year ended December 31, 2016				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries (Note 4(1))	Ductos y Energeticos del Norte, S. de R. L. de C. V. (Note 4(2))	Pro Forma Adjustments (Note 5)	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Revenues	$ 717,894	$ 19,584	$ 253,382	a, c	$ 990,860
Cost of revenues	(237,789)	—	(2,630)	a, c	(240,419)
Operating, administrative and other expenses	(104,754)	(8,500)	(45,364)	a, c	(158,618)
Depreciation and amortization	(64,384)	(74)	(40,932)		(105,390)
Interest income (expense)	6,269	95	(7,753)	a, c	(1,389)
Finance costs	(20,836)	(8,247)	(33,969)	a, b, c	(63,052)
Other gains (losses), net	2,168	(232)	(12,108)	a, c	(10,172)
Remeasurement of equity method investment	673,071	—	—		673,071
Profit before income tax and share of profits of joint ventures	971,639	2,626	110,626		1,084,891
Income tax (expense) benefit	(147,158)	5,607	(41,798)	a, c	(183,349)
Share of profit (loss) of joint ventures, net of income tax	42,841	13,179	(42,379)	a, c	13,641
Profit for the year from continuing operations	$ 867,322	$ 21,412	$ 26,449		$ 915,183
Loss for the year from discontinued operations, net of income tax	(112,332)	—	—		(112,332)
Profit for the year	$ 754,990	$ 21,412	$ 26,449		$ 802,851

See accompanying notes to the Pro forma Combined Financial Statements.

Notes to the Pro forma Combined Financial Statements

As of December 31, 2016
(In thousands of U.S. Dollars, except where otherwise stated)

1. Activities

Infraestructura Energetica Nova, S. A. B. de C. V. and subsidiaries (collectively, the "Company") is located and incorporated in Mexico. Its parent and ultimate holding company is Sempra Energy (the "Parent"), domiciled and incorporated in the State of California in the United States of America ("U.S."). The address of the Company's registered offices is Paseo de la Reforma No. 342 Piso 24, Torre New York Life, Colonia Juarez, Ciudad de Mexico.

The Company operates in the energy sector and is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova.

The Gas segment develops, owns and operates, or holds interests in, natural gas, LPG and ethane pipelines, storage facilities for liquified natural gas ("LNG"), LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo Leon and Jalisco, Mexico. It also owns and operates an LNG terminal in Baja California, Mexico, for importing, storing and regasifying LNG.

The Power segment develops three solar projects located in Baja California, Aguascalientes and Sonora, Mexico, owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, owns a wind farm located in Nuevo Leon, Mexico and holds interests in a renewable energy project in a joint venture in Baja California, Mexico, both renewable energy projects use the wind resources to serve costumers in Mexico and in the U. S., respectively.

The Company is also developing a project for the construction of a marine terminal and two in-land terminals for the reception, storage and delivery of refined products, located in Veracruz, Ciudad de Mexico and Puebla, Mexico, respectively.

In February 2016, the Company's management approved a plan to market and sell Termoelectrica de Mexicali, S. de R. L. de C. V. and subsidiaries ("TDM"), as of March 31, 2016, and ahead, the assets and liabilities were classified under current assets and liabilities as held for sale and the corresponding discontinued operation effects in the Pro forma Combined Statements of Profit.

On September 26, 2016, the Company completed the acquisition of IEnova Pipelines, S. de R. L. de C.V. ("IEnova Pipelines") (formerly Gasoductos de Chihuahua, S. de R. L. de C.V.) ("IEnova Pipelines acquisition") through IEnova Gasoductos Holding, S. de R. L. de C. V., ("IGH") a subsidiary of IEnova; therefore, the Company now holds 100 percent of IEnova Pipelines's shares. The final price of the transaction was $1,077.6 million, net of cash acquired. IEnova Pipelines has been included in the Company's consolidated financial statements since the acquisition date.

On December 14, 2016 through Controladora Sierra Juarez, S. de R. L. de C. V. ("CSJ") a subsidiary of the Company completed the acquisition of Fisterra Energy Netherlands III, B. V., Fisterra Energy Netherlands, IV B. V., Fisterra Energy Mexico III, S. de R. L. de C. V., Fisterra Energy Mexico IV, S. de R. L. de C. V., Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika") ("Ventika acquisition"). The final price of the transaction was $434.7 million, plus the assumption of outstanding debt of $485.3 million. Ventika has been included in the Company's consolidated financial statements since the acquisition date.

2. Description of the asset acquisition, the "Transaction"

On November 15, 2017, IEnova completed the acquisition to Pemex Transformacion Industrial ("Pemex TRI") of the 50 percent interest in Ductos y Energeticos del Norte S. de R. L. de C. V. ("DEN"), a joint venture that holds a 50 percent interest in the Los Ramones Norte pipeline, through TAG Norte Holdings S. de R. L. de C. V. ("TAG"), for a purchase price of $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 millions of intercompany debt. This acquisition increases IEnova's ownership interest in TAG from 25 percent to 50 percent. IEnova Pipelines previously accounted for its 50 percent interest in DEN as an equity method investment. As of November 1, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. DEN will continue to account for its interest in TAG as on equity method investment.

This transaction was accounted as an asset acquisition because DEN does not meet the definition of a business, since it does not have substantive inputs or processes. DEN's most significant asset is its equity method investment in TAG, the entity that owns the Los Ramones Norte pipeline. The excess consideration over the fair value of assets acquired and liabilities assumed was allocated on a relative fair value basis between the equity investment in TAG and an acquired intangible asset related to an Operation and Maintenance ("O&M") contract with TAG.

3. Description of the Transaction Financing

The Company financed the Transaction through the disposition of a credit line ("the credit line"), up to the amount of the Transaction related. Debt and interest expense are included in the Pro forma Combined Financial Statements.

4. Basis for presentation of the Pro forma Combined Financial Statements

The accounting policies applied in the preparation of the Pro forma Combined Financial Statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Pro forma Combined Statements of Financial Position and the Pro forma Combined Statements of Profit have been prepared based on the assumptions that the Company's management believes are appropriate in the current circumstances.

The Pro forma Combined Financial Statements include the Pro forma Combined Statements of Financial Position as of December 31, 2016 and the Pro forma Combined Statements of Profit for the year ended December 31, 2016.

The Pro forma Combined Financial Statements present the financial information of the Company as if the DEN Acquisition and its financing occurred (i) with respect to the Pro forma Combined Statements of Financial Position as of December 31, 2016 and (ii) with respect to the Pro forma Combined Statements of Profit for the year ended on December 31, 2016.

As the IEnova Pipelines acquisition and Ventika acquisition were completed on September 26, 2016 and December 14, 2016, respectively, for comparative purposes, the Pro forma Combined Statements of Profit for the year ended December 31, 2016, present the financial information of the Company as if the IEnova Pipelines acquisition and Ventika acquisition occurred as of January 1, 2016.

Accordingly, the Pro forma Combined Financial Statements were compiled using the following information:

(1) The annual audited Consolidated Statement of Financial Position and the audited Consolidated Statement of Profit of the Company as of and for the year ended on December 31, 2016, prepared in accordance with IFRS.

(2) The annual unaudited Consolidated Statement of Financial Position and the audited Consolidated Statement of Profit of DEN as of and for the year ended on December 31, 2016, prepared in accordance with IFRS.

(3) The historical unaudited financial information of IEnova Pipelines is derived from the historical Interim Consolidated Statements of Profit of IEnova Pipelines for the period ended on September 26, 2016 (before the acquisition date), prepared in accordance with the Accounting Principles Generally Accepted in the United States as reconciled to IFRS.

(4) The historical unaudited Condensed Interim Combined Statements of Profit of Ventika for the period ended on December 14, 2016 (before the acquisition date), prepared in accordance with IAS 34, Interim Financial Reporting.

5. Pro forma adjustments

Pro forma adjustments as of December 31, 2016, included in the accompanying Pro forma Combined Statements of Financial Position and for the year ended December 31 2016, included in the Pro forma Combined Statements of Profit as described below, represent the DEN's asset acquisition and its financing had taken place on January 1, 2016.

This information is not intended to present the Company's results of operations or its financial position as though the DEN asset acquisition had occurred on the aforementioned dates, nor is it intended to project the Company's operating results and financial position for any future periods or as of any future dates.

In order to present the effects of the DEN asset acquisition in the Pro forma Financial Statements the management applied certain pro forma adjustments to the historical figures of the related companies.

Adjustments to the Pro forma Combined Statements of Financial Position as of December 31, 2016 and adjustments to the Pro forma Combined Statements of Profit for the year ended December 31, 2016:

a. The pro forma adjustments represent the consolidation of DEN, elimination of previous equity method of joint venture in the Company from DEN, related party balances and transactions, including payment of debt from stockholders of DEN.

b. The withdrawal of the credit line including the application of the funds to the payment of the transaction.

c. Consolidation of IEnova Pipelines, elimination of previous equity method from IEnova Pipelines as a joint venture, elimination of balances and transactions with affiliates and remeasurement of equity method investment.

d. TAG is not part of the assignment agreement. Therefore, the pro forma adjustments exclude the assets and liabilities related to TAG. After the Transaction is consummated, the Company will hold a 50 percent joint venture investment in TAG.

e. Pursuant to the Assignment Agreement, tax and accounting treatment of the transaction must be consistent, therefore, it was considered as an acquisition of equity interest for the purposes of income tax law.

6. Recognized amounts of identifiable assets acquired and liabilities assumed of DEN

	As of December 31, 2016
Current assets	$ 7,183
Non-current assets, mainly property, plant and equipment, net and other assets	94,369
Current and long-term liabilities	(6,400)
Total identifiable net assets	95,152
Remeasurement in joint venture investments in accordance with pro forma adjustments	117,729
Intangible assets	41,950
Acquisition costs paid	(143)
Payment of loans acquired through DEN acquisition	(89,936)
Total consideration transferred	$ 164,752

The pro forma adjustments include the amounts of identifiable assets acquired and liabilities assumed and consolidation adjustments of DEN.

The effect on stockholders' equity, including the elimination of DEN, is summarized as follows:

Stockholder's equity	As of December 31, 2016
Capital stock	$ (331)
Accumulated other comprehensive income	1,549
Retained earnings	(17,145)
	$ (15,927)

* * * * *

20 de febrero de 2018

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2017.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 21 de febrero de 2017, 24 de abril de 2017, el 25 de julio de 2017 y el 23 de octubre de 2017. Se tuvieron reuniones previas, a cada sesión, con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2017 fueron:

,

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 20, 2018

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2017.

During the fiscal year in question, the Committee met 4 times, on February 21, 2017 April 24, 2017, on July 25, 2017 and on October 23, 2017. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2017 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Recomendar la aprobación de los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2016, y primero segundo y tercer trimestre de 2017, para ser presentados al Consejo de Administración,
(iv) Aprobar los planes de auditoria para los años 2017 y 2018,
(v) Aprobar el plan de trabajo y calendario del Comité para 2018,
(vi) Aprobar los reportes presentados por el auditor interno y externo,
(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,
(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,
(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,
(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,
(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía, así como las medidas de mitigación correspondientes.
(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2016 and the 1st, 2nd and 3rd quarters of 2017, presented to the Board of Directors,
(iv) To approve the audit plans for the years 2017 and 2018,
(v) To approve the committee´s work plan and calendar for 2018,
(vi) To approve the reports presented by the internal and external auditors,
(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,
(viii) The recommendations made by internal audit were implemented,
(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,
(x) There were no relevant accounting policies modified during the year,
(xi) A follow up process was given to the risk management system of the Company,
(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2017 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo

It is hereby informed that, during the year 2017 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions establecido en el artículo 28, fracción III, inciso f) de la LMV.

of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité de Auditoría, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

21 de febrero de 2017

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2016.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 22 de febrero de 2016, 25 de abril de 2016, el 26 de julio de 2016 y el 25 de octubre de 2016. Se tuvieron reuniones previas con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2016 fueron:

,

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 21, 2017

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2016.

During the fiscal year in question, the Committee met 4 times, on February 22, 2016 April 25, 2016, on July 26, 2016 and on October 25, 2016. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2016 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Aprobar los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2015, y primero segundo y tercer trimestre de 2016, presentados al Consejo de Administración,
(iv) Aprobar los planes de auditoria para los años 2016 y 2017,
(v) Aprobar el plan de trabajo y calendario del Comité para 2017,
(vi) Aprobar los reportes presentados por el auditor interno y externo,
(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,
(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,
(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,
(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,
(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía.
(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2015 and the 1st, 2nd and 3rd quarters of 2016, presented to the Board of Directors,
(iv) To approve the audit plans for the years 2016 and 2017,
(v) To approve the committee´s work plan and calendar for 2017,
(vi) To approve the reports presented by the internal and external auditors,
(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,
(viii) The recommendations made by internal audit were implemented,
(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,
(x) There were no relevant accounting policies modified during the year,
(xi) A follow up process was given to the risk management system of the Company,
(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2016 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2016 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

22 de febrero de 2016

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2015.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 24 de febrero de 2015, 21 de abril de 2015, el 28 de julio de 2015 y el 21 de octubre de 2015. Se tuvieron reuniones previas con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2015 fueron:

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 22, 2016

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2015.

During the fiscal year in question, the Committee met 4 times, on February 24, 2015 April 21, 2015, on July 28, 2015 and on October 21, 2015. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2015 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Aprobar los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2014, y primero segundo y tercer trimestre de 2015, presentados al Consejo de Administración,

(iv) Aprobar los planes de auditoria para los años 2015 y 2016,

(v) Aprobar el plan de trabajo y calendario del Comité para 2015,

(vi) Aprobar los reportes presentados por el auditor interno y externo,

(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,

(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía.

(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2014 and the 1st, 2nd and 3rd quarters of 2015, presented to the Board of Directors,

(iv) To approve the audit plans for the years 2015 and 2016,

(v) To approve the committee´s work plan and calendar for 2015,

(vi) To approve the reports presented by the internal and external auditors,

(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(viii) The recommendations made by internal audit were implemented,

(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(x) There were no relevant accounting policies modified during the year,

(xi) A follow up process was given to the risk management system of the Company,

(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2015 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2015 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.
Este informe ha sido aprobado por unanimidad de los miembros del Comité.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Report Dated February 26, 2016

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2015 and 2014

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Deloitte.

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Independent Auditors' Report to the Board of Directors and Members of Gasoductos de Chihuahua, S. de R. L. de C. V.

We have audited the accompanying consolidated financial statements of Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and other comprehensive income, changes in members' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Mexican Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gasoductos de Chihuahua, S. de R. L. de C. V. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with Mexican Financial Reporting Standards.

Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Juan Carlos Reynoso Degollado

February 26, 2016

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2015 and 2014
(In Mexican pesos)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 569,780,181	$ 1,962,141,885
Account receivable	34,240,940	18,554,496
Due from related party	917,114,831	337,258,253
Recoverable taxes, mainly value added tax	23,477,011	1,217,544,671
Other accounts receivable and advance payments	72,062,069	36,916,540
Total current assets	1,616,675,032	3,572,415,845
Pipeline, land right-of-way, equipment and construction in progress – Net	21,781,838,900	15,033,740,065
Investment in joint venture	2,834,310,558	2,118,133,680
Other assets	17,872,788	2,964,346
TAG Norte Holding, S. de R. L. de C. V. – associated entity	-	1,285,174,551
Total	$ 26,250,697,278	$ 22,012,428,487

Liabilities and members' equity

Current liabilities:		
Current portion of long-term debt	$ 617,693,702	$ 475,178,739
Account payable	1,157,202,762	423,242,917
Derivative financial instruments	153,527,091	141,950,035
Direct benefits to employees	27,320,492	15,611,628
Taxes payable and other accounts payable	273,195,266	8,522,367
Total current liabilities	2,228,939,313	1,064,505,686
Long term liabilities:		
Long-term debt	6,229,801,031	6,574,421,494
Derivative financial instruments	141,267,322	105,971,101
PEMEX Logística – related party	148,828,152	103,340,742
Loan from related parties	2,975,966,201	3,649,916,735
Asset retirement obligations	83,120,770	36,675,558
Deferred income taxes	1,515,052,910	946,996,396
Employee benefits	18,109,982	12,993,453
Total liabilities	13,341,085,681	12,494,821,165
Members' equity:		
Social parts	1,123,312,887	1,123,312,887
Retained earnings	8,281,822,774	6,948,264,576
Valuation of derivative financial instruments	(441,583,890)	(291,199,595)
Cumulative translation adjustment	3,946,059,826	1,737,229,454
Total members' equity	12,909,611,597	9,517,607,322
Total	$ 26,250,697,278	$ 22,012,428,487

See accompanying notes to consolidated financial statements

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

	2015	2014
Revenues from transportation service	$ 3,634,763,076	$ 1,915,595,003
Revenues from storage service	230,561,283	211,703,494
Revenues from operation and maintenance	33,999,363	-
Revenues from administrative services	22,292,556	-
Other income	46,560,365	43,910,121
Cost of transportation service	1,169,111,421	569,125,649
Cost of storage service	106,691,687	104,608,181
Cost of operation and maintenance	9,625,044	-
Cost of administrative services	22,010,624	-
Other costs	1,447,616	21,953,945
Gross profit	2,659,290,251	1,475,520,843
Administrative expenses	280,545,218	211,284,170
Operating income	2,378,745,033	1,264,236,673
Comprehensive financing loss cost:		
Interest expense, net	(359,479,199)	(192,398,405)
Allowance for funds used during construction	305,233,738	257,120,160
Foreign exchange loss, net	(151,080,458)	(194,845,708)
	(205,325,919)	(130,123,953)
Equity in income (loss) in joint-venture	346,019,543	(76,936,825)
Income before income taxes	2,519,438,657	1,057,175,895
Income taxes	1,185,880,459	608,778,685
Consolidated net income	1,333,558,198	448,397,210
Other comprehensive income (loss):		
Valuation of financial instruments	(150,384,295)	(291,199,595)
Cumulative translation adjustment	2,208,830,372	1,257,045,127
Consolidated comprehensive income	$ 3,392,004,275	$ 1,414,242,742

See accompanying notes to consolidated financial statements.

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

	2015	2014
Cash flow from operating activities:		
Income before taxes	$ 2,519,438,657	$ 1,057,175,895
Items related to investing activities:		
Depreciation	814,723,303	269,559,314
Allowance for funds used during construction	(305,233,738)	(257,120,160)
Debt expenses amortization	34,355,291	13,776,129
Interest income	(31,703,982)	(1,885,917)
Equity income in joint venture	(346,019,543)	76,936,825
Asset retirement obligations	36,596,311	-
Asset retirement obligations – amortization	3,317,514	2,163,706
Items related to financing activities:		
Interest expense	353,510,376	185,450,370
	3,078,984,189	1,346,056,162
(Increase) decrease in:		
Accounts receivable	(11,361,489)	43,322,480
Due from related party	(451,500,007)	15,272,360
Recoverable taxes, mainly value added tax	1,293,707,215	(741,846,035)
Other accounts receivable and advance payments	(26,209,103)	(16,648,192)
Other assets	(13,173,131)	10,054,320
Increase (decrease) in:		
Account payable	603,631,297	145,006,280
Direct benefits to employees	8,195,309	6,533,286
Taxes payable and other accounts payable	237,947,316	
Labor obligation	2,581,979	3,558,739
Income taxes	(617,823,945)	(278,905,886)
Net cash provided by operating activities	4,104,979,630	532,403,514
Investing activities:		
Additions to pipeline, land right-of-way, equipment and construction in progress	(4,304,994,526)	(6,608,436,737)
Purchase of pipeline, land right-of-way and equipment	13,148,211	59,205,371
Capital contribution in joint-venture	(56,335,244)	(2,056,272,465)
Loans to join-venture	1,253,922,164	(1,276,305,955)
Interest received to related parties	32,358,257	-
Net cash used in investing activities	(3,061,901,138)	(9,881,809,786)
Excess cash to be applied to financing activities	1,043,078,492	(9,349,406,272)
Financing activities:		
Loan received	527,084,932	7,022,156,803
Loan paid	(1,860,669,397)	(493,932,190)
Loan received from related parties	(1,255,080,733)	3,332,073,420
Interest paid	(229,417,180)	(123,571,782)
Financial contracting cost	-	(203,105,555)
Cash flow hedge	(165,119,417)	(133,571,886)
Net cash provided by (used in) financing activities	(2,983,201,795)	9,400,048,810
Net (decrease) increase in cash and cash equivalents	(1,940,123,303)	50,642,538
Effects from changes in value of cash	547,761,599	451,192,129
Cash and cash equivalents at beginning of the year	1,962,141,885	1,460,307,218
Cash and cash equivalents at end of the year	$ 569,780,181	$ 1,962,141,885

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

1. Activities and significant events

Gasoductos de Chihuahua, S. de R. L. de C. V. (Gasoductos de Chihuahua) is a corporation established under the laws in Mexico and is a 50% investee of PEMEX Transformación Industrial ("Pemex TRI"), a decentralized public agency which, in turn, is a subsidiary of Petróleos Mexicanos. The remaining 50% of the equity is owned by IEnova Gasoductos Holding, S. de R. L. de C. V., a wholly-owned subsidiary of IEnova Gasoductos México, S. de R. L. de C. V. which is a wholly-owned subsidiary of IEnova Energy Holdings (incorporated in the United States of America).

Gasoductos de Chihuahua and subsidiaries (collectively referred to as the "Entity"), receives approximately 95% of its income with subsidiaries of Petróleos Mexicanos (PEMEX) for the years ended December 31, 2015 and 2014; consequently, the accompanying consolidated financial statements are not necessarily indicative of the conditions that would have prevailed or the results of their operations and cash flows the Entity might have had without such affiliation.

The Entity is a limited liability entity, which combines the aspects of a partnership and a corporation. Members are liable only to the extent of their capital contributions, but participatory interests are represented by social parts that are not freely negotiable.

The Entity has the following permissions granted by the CRE, which contain among other things, general conditions for the provision of service, fee schedules, the maximum incomes and the path of the pipeline proposed by the entities who must develop as the program works and investments established in the above-mentioned permits. Accordance with the resolutions of the CRE, there will be a five-year review of the maximum income, considering the investment made by the Entity and, if necessary, adjustments to the level of the new income and rates.

On July 15, 1997, the CRE issued ruling SE/1005/97 granting Gasoductos de Chihuahua permission to transport natural gas under permit number G/016/TRA/97 for a period of 30 years. The permit may be renewed for additional periods of 15 years; also, the ruling authorized Gasoductos de Chihuahua to construct the "Samalayuca Pipeline", which has been operating since 1997. In addition, on October 15, 2001, the CRE issued ruling RES/185/2001, authorizing Gasoductos de Chihuahua to construct the compression station "Gloria a Dios", which was completed and commenced operations during 2001.

On September 12, 2002, the CRE issued ruling RES/177/2002, granting Gasoductos de Tamaulipas permission to transport natural gas under permit number G/128/TRA/2002, for a 30-year period. The permit may be renewed for additional periods of 15 years; also, the ruling authorized Gasoductos de Tamaulipas to construct the "San Fernando Pipeline", which commenced operations during 2003.

On October 6, 2006, the CRE issued ruling RES/280/2006, granting TDF, S. de R.L. de C.V. (TDF), the operating subsidiary of TDN, permission to transport liquid petroleum gas under permit number G/173/LTP/2005, for a 30-year period. The permit may be renewed for additional periods of 15 years; also, the ruling authorized TDF to construct the "Burgos-Monterrey Pipeline", which commenced operations on December 24, 2007.

On February 13, 2012, the CRE issued ruling RES/068/2012, granting TDN, permission to store liquid petroleum gas through a Liquid Petroleum Gas Supply Plant under permit number G/276/LPA/2012, for a 30 year period. The permit may be renewed for additional periods of 15 years.

On April 18, 2013, the CRE issued ruling G/308/TRA/2013, granting TAG Pipelines, S. de R.L. de C.V. (TAG), permission to transport natural gas, on May 23, 2013, under permit number RES/194/2013 transfer from TAG to Gasoductos del Noreste, S. de R.L. de C.V. (GDN), the ruling for a 30 years period beginning on the commercial operation date.

Significant events - The following events caused significant changes in the balances and transactions reflected in the consolidated financial statements:

As part of Petroleos Mexicanos actions to increase its operational and financial efficiency established in the business plan announced on July 31, 2015 that, Pemex disinvested its participation in Gasoductos de Chihuahua equivalent to 50% of the share capital through an agreement with IEnova. As a result, IEnova would own 100% of Gasoductos de Chihuahua.

On December 18, 2015, the Federal Competition Commission in Mexico (COFECE) challenged the transaction of the terms in the agreement stated above. Pemex should seek sold by tender, its participation in two of the seven assets of Gasoductos de Chihuahua as a result of previous decisions issued by the former Federal Competition Commission in Mexico. These assets are known as the San Fernando pipeline of GDT and the LPG Pipeline Gas of TDF (the "Conditional Assets"). Consequently, Pemex and IEnova are in the process of restructuring the transaction. It is expected that conditions compliance of restructuring of the transaction and the corresponding notification, carried out during the second quarter of 2016.

On April 28, 2015, it was published in the Official Journal of the Federation the agreement establishing the State Production Company, a subsidiary of Petroleos Mexicanos, known as Pemex – Tansformación Industrial (Pemex TRI). On November 1, 2015, it came into effect, subrogated the rights and obligations of the former subsidiary of Pemex-Gas y Petroquímica Básica (holder of 50% of the share capital of Gasoductos de Chihuahua.)

In accordance with articles one and two of the National Center for Control of Natural Gas (CENAGAS) creating decree, published in the Official Journal of the Federation on August 28, 2014. That organization will be responsible for the management, administration and operation of the National Integrated Natural Gas storage and transportation in the country. As a result of the above, on October 28, 2015, Pemex Gas y Petroquímica Básica (PGPB) transferred the agreement for the Provision of Transportation Services for Integrated Natural for Gasoductos de Tamaulipas, S. de R. L. de C. V and Gasoductos del Noreste, S. de R.L. de C.V. to CENAGAS.

Petróleos Mexicanos (PEMEX) had decrease its credit ratings derived from the drop in oil prices, which conditions have impacted the cash flow and financial indicators more than PEMEX would expected. To date, PEMEX's ratings reflect that there is a certainty that the Mexican government will provide extraordinary, adequate and timely support to PEMEX in the case of financial difficulties.

Gasoductos del Sureste, S. de R.L. de C.V. (Gasoductos del Sureste), has a pipeline transport system of ethane gas which is composed of the following segments: Segment I Nuevo Pemex – Cactus which commenced operations on January 15, 2015, Cactus- Segment II Cactus – Complejo Etileno XXI which commenced operations on July 8, 2015, and Segment III Complejo Etileno XXI- Anillo Etano in Coatzacoalcos area wich commenced operations December 21, 2015.

GDN, built and operates a system of natural transporting pipeline gas, completed the first phase on December 1, 2014, and the second phase became operational on December 1, 2015; its current activities are focused on providing natural gas transportation services, as well as, maintenance and acquiring the operational assets needed to carry out the transportation service.

On March 12, 2014, Ductos y Energéticos del Norte, S. de R.L. de C.V. was incorporated in order to be part of the joint-venture contract Los Ramones II, owning 50% of shares of the entity Tag Norte Holding, S. de R.L. de C.V. (TAG Norte). This Entity is in charge of the natural pipelines gas construction; it consists in 448 km gas pipeline and two compressor stations between the municipality of Ramones, in the state of Nuevo León and San Luis Potosí. The estimated investment will amount 1,421,000 U.S. dollars. In addition the pipeline will provide natural gas transportation service in all the system capacity. The license has a term of 25 years from the date of commercial operation, scheduled for the last quarter of 2015.

On December 2, 2013, Gasoductos Ingeniería, S. de R.L. de C.V. was incorporated; additionally on May 28, 2014, Gasoductos Corporativos, S. de R.L. de C.V. was incorporated. Both are 99.99% subsidiaries of Gasoductos Servicios Sub-Holding, S. de R.L. de C.V. and they are dedicated to providing administrative services.

Energy reforms. On December 20, 2013, the President of the Mexican Republic signed the constitutional decree in energy reform; approved by the Congress and most of the legislature states. With that decree Articles 25, 27 and 28 of the Constitution of the Mexican United States were modified and now allows private investment in the sectors of exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution petroleum products, electricity transmission and distribution. The Entity is evaluating and implementing changes resulting from these new regulations.

2. Basis of presentation

a. ***Explanation for translation into English*** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS"), which are comprised of accounting standards that are individually referred to as *Normas de Información Financiera*, or "NIFs"). Certain accounting practices applied by the Entity that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

b. ***Monetary unit of the consolidated financial statements*** - The consolidated financial statements and notes as of December 31, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

c. ***Consolidation of financial statements*** - The consolidated financial statements include the financial statements of Gasoductos de Chihuahua and those of its subsidiaries over which it exercises control as of December 31, 2015 and 2014 and for the years then ended, shareholding percentage in their capital stock is shown below:

Entity	Ownership Percentage 2015	Ownership Percentage 2014	Activity
Gasoductos de Tamaulipas, S. de R. L. de C. V. (GDT)	99.99%	99.99%	Transportation of natural gas.
Gasoductos Servicios Corporativos y de Administración, S. de R. L. de C. V. (GSCA)	99.99%	99.99%	Provides financial and administrative services to related parties.
Gasoductos Servicios Subholding, S. de R. L. de C. V. and Subsidiaries (GSH) (1)	99.99%	99.99%	Provides financial and administrative services to related parties.
Transportadora del Norte SH, S. de R. L. de C. V. and Subsidiary (TDN) (2)	99.99%	99.99%	Liquid petroleum Gas storage and holding entity of TDF engaged in the transportation of liquid gas Burgos-Monterrey.
Ductos y Energéticos del Sureste, S. de R. L. de C. V. and Subsidiary (DES) (3)	99.99%	99.99%	Holding entity of Gasoductos del Sureste, preoperative stage for the transportation of ethane gas Gas Processing Complex Cangrejera (CPG).
Gasoductos del Noreste, S. de R. L. de C. V. (GDN)	99.99%	99.99%	Natural pipeline gas transportation project.

Entity	Ownership Percentage 2015	Ownership Percentage 2014	Activity
Ductos y Energéticos del Norte, S. de R. L. de C. V. and joint-venture (DEN) (4)	99.99%	99.99%	Holding entity of TAG Norte, preoperative stage for the transportation of natural gas Los Ramones II.

Subsidiaries of sub-holding and joint venture indicated in the above table are as follows:

(1) Gasoductos Ingeniería, S. de R. L. de C. V. and Gasoductos Servicios Corporativos, S. de R. L. de C. V.
(2) TDF, S. de R. L. de C. V.
(3) Gasoductos del Sureste, S. de R. L. de C. V.
(4) TAG Norte Holding, S. de R. L. de C. V.

Significant intercompany balances and transactions have been eliminated. Investment in joint venture is accounted under the equity method.

d. ***Translation of financial statements of foreign subsidiaries*** - To consolidate financial statements of foreign subsidiaries, the accounting policies of the foreign entities are converted to MFRS using the currency in which transactions are recorded. The financial statements are subsequently translated to Mexican pesos using the following methodologies:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the currency in which transactions are recorded to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded under comprehensive financing (cost) income within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. Translation effects are recorded in cumulative translation adjustment within members' equity.

e. ***Comprehensive income*** - Comprehensive income represents changes in stockholders' equity during the year, for concepts other than capital contributions, reductions and distributions, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting results. Other comprehensive income (loss) is represented by the effects of the cumulative translation adjustments of foreign operations and the valuation of derivative financial instruments. Upon realization of assets and settlement of liabilities giving rise to other comprehensive income items, the latter are recognized within results.

f. ***Classification of costs and expenses*** - Costs and expenses are classified according to their function.

g. ***Income from operations*** - Is the result of subtracting cost of transportation service and general expenses from revenues from transportation service. While NIF B-3, *Statement of Income*, does not require inclusion of this line item within results, it has been included for a better understanding of the Entity's economic and financial performance.

3. **Summary of significant accounting policies**

The accompanying consolidated financial statements have been prepared in conformity with MFRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Entity's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Entity are as follows:

i. ***Accounting changes -***

As of January 1, 2015, the Entity adopted the following improvements to NIF 2015:

NIF's that result in accounting changes:

NIF B-8, Consolidated or Combined Financial Statements
Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments

NIF´s that do not result in accounting changes:
NIF B-13, Events Subsequent to the Date of the Financial Statements and Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments
NIF B-15, Conversion of Foreign Currencies
NIF B-8, *Consolidated or Combined Financial Statements*– Clarifies the criteria to be evaluated in order to identify an investment entity and indicates that given the nature of the primary activity of an investment entity, it may be difficult for such an entity to exercise control over the entities in which it has invested; therefore, an analysis should be carried out in order to conclude whether the entity exercises control over its investees.

Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments– Clarifies and modifies the accounting treatment for liabilities arising from customer advances denominated in foreign currency. When an entity receives advance collections for sales or services denominated in foreign currency, the changes in exchange rates between the functional currency and the transaction currency do not affect the amount of the advance collection. Accordingly, the balance of the customer advances liability should not be modified as a result of such changes in exchange rates.

NIF B-13, Events Subsequent to the Date of the Financial Statements and Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments –NIF B-13 includes in a footnote the disclosures in the financial statements of an entity that are not prepared on a going concern basis in accordance with NIF A-7, Presentation and Disclosure. Such requirement was included as part of the regulatory text in the disclosure standards section of NIF B-13, and as part of Bulletin C-9 to disclose the contingencies arising from the fact that the entity is not operating on a going concern basis. Consequently, Circular 57 Sufficient Disclosure is repealed as a result of the Commercial Bankruptcy Law.

NIF B-15, Conversion of Foreign Currencies – The definition of foreign operations was modified to clarify that it not only refers to a legal entity or a cash generating unit whose operations are based on or carried out in an economic environment or currency different from those of the reporting entity, but also includes legal entities or cash generating units that operate in the same country as the reporting entity (parent or holding company), but use a currency different from that of the reporting entity.

At the date of issuance of these consolidated financial statements, the adoption of these improvements did not have a material effect on the Entity's financial information.

ii. ***Recognition of the effects of inflation*** – Cumulative inflation rates over the three-year periods ended December 31, 2015 and 2014 were 10.52% and 12.08%, in each period. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2015 and 2014 were 2.13% and 4.08%, respectively.

Beginning on January 1, 2008, the Entity discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

iii. ***Cash and cash equivalents*** – Cash and cash equivalents consist mainly of bank deposits in checking accounts and daily investments easily convertible into cash, Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in comprehensive financing (cost) income of the period. Cash equivalents are represented mainly for cash in investment funds.

iv. ***Investment in shares of joint venture*** - A joint business is a contractual agreement in which the parties that have joint control over the arrangement have the right to the net assets of the joint business. Joint control is the contractual agreement to share control in a business, which exists when the decisions regarding the relevant activities of the joint business require the unanimous approval of the parties who share control.

The investment in associated companies and joint businesses is adjusted after the initial recognition for the respective portion of comprehensive income or loss of the associated company as well as for the distribution of profits or capital reimbursements of such company. If indicators of impairment are present, the investments in associated companies and joint businesses are subjected to impairment testing.

v. ***Operation regulated*** - As mentioned in Note 1, the activity of Gasoductos de Chihuahua and its subsidiaries, GDT, TDF, TDN and GDN is regulated by the CRE. Consequently, and in accordance with the provisions of NIF A-8, "Supplementary nature", the Entity decided to apply residually Codification ASC 980 "Regulated Operations" (formerly FAS 71) ("ASC 980") of the Financial Accounting Standard Board ("FASB") accounting principles generally accepted in the United States, whereby assets and liabilities resulting from the process of determining regulated rates, which would not be recorded under financial reporting standards applicable to operations are recorded unregulated. In determining rates for CRE, considering the investment budget presented each of the Entities to the controller. The Entity periodically evaluates the applicability of ASC 980 and considers factors such as changes in regulations and the impact of competition. If the cost-based regulation ends or competition increases, the Entity could punish their recorded based on this standard assets.

vi. ***Allowance for funds used during construction (AFUDC)*** - Based on ASC 980 above described. The AFUDC represents the estimated proceeds of debt and equity needed to finance cost construction authorized by the CRE assets. This cost is capitalized as part of the construction cost of the pipeline equipment credited to the income statement. Once construction is completed, the Entity may recover these costs, including performance, when considered on the basis of calculation of rates and the depreciation of the pipeline.

Resolutions issued by the CRE, as discussed in Note 1, shown in one of the considerations that took into account the particular characteristics of the project under the resolutions and that was applied to each project. A weighted average cost of capital ("WACC" for short) or an Internal Rate of Return ("IRR") for determining the tariffs which were adopted in these decisions. The WACC and IRR above consider some financial structure of each project and the cost of both debt and equity. Based on the foregoing, the Company believes that resolutions will provide reasonable assurance regarding the existence of an asset by the financial cost of funds used have been capitalized during construction.

During December 31, 2015 and 2014, GDN capitalized $305,233,738 and $257,120,160, respectively.

Additionally, the Entity capitalizes borrowing costs on financial assets under construction in which resources are used; the capitalized cost as of December 31, 2015 and 2014, amounted to $141,195,396 and $121,534,528, respectively.

vii. ***Construction in progress*** - Construction in progress is recorded at acquisition cost. The Entity capitalized until the date of entry into operation all direct construction costs, and indirect costs, authorized in the resolution and that was considered in determining rates as explained in Note 1, as are the costs of engineering and cost of funds used during construction.

viii. ***Pipeline, land right-of-way and equipment*** - Pipeline, land right-of-way and equipment are recorded at acquisition cost. Balances from acquisitions made through December 31, 2007 were restated for the effects of inflation by applying factors derived from the National Consumer Price Index ("NCPI") through that date. In case of fixed assets of foreign origin acquisitions, cost was updated until that date with inflation in the country of origin and considering the fluctuation of the Mexican peso relative to the currency of that country.

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Percentage of depreciation and amortization
Pipeline and land right-of-way	3.3 to 5
Structures, compression and pumping station	3.3 to 5
Allowance for funds used during construction	3.3 to 5
Measuring and control equipment	6.7
Computer equipment	25.0 to 30
Office furniture and equipment	10
Transportation equipment	25
Leasehold improvements	11
Other assets	3.3 a 5

In accordance with NIF B-15, non-monetary assets reflect the amount of historical pesos at the exchange rate as of December 31, 2015 and 2014.

ix. ***Impairment of long-lived assets in use*** - The Entity reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the aforementioned amounts. Impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than those of previous years, obsolescence, reduction in the demand for the products manufactured, competition and other legal and economic factors. The impairment loss on the value of long-lived assets in use, as well as its reversal, are classified in the same cost and expense line items where the related depreciation or amortization associated with those assets are recognized. During 2015 and 2014, the Entity did not record impairment effects.

x. ***Financial risk management policy*** - The activities of the entity expose it to a variety of financial risks, including market risk (including currency risk and interest rates) credit risk and liquidity risk. The Entity seeks to minimize potential adverse effects of these risks on its financial performance through a comprehensive risk management program. The Entity uses derivative and non-derivative financial instruments to hedge certain exposures to financial risks embedded in the balance sheet. The financial risk management and the use of derivative and non-derivative financial instruments are governed by the policies of the Entity approved by the Board of Managers and are carried through a treasury department.

The Entity manages its credit risk related to its portfolio of derivatives transactions. Celebrating only with recognized, creditworthy counterparties. As of December 31, 2015, the Entity has no credit risk for derivative financial instruments because valuation of mark to market (MTM) derivative financial instruments is a loss for the Entity.

xi. ***Derivative financial instruments*** - The Entity obtains financing under different conditions. When they are at variable rates, in order to reduce their exposure to risks of volatility in interest rates. Financial derivatives contracts denominated interest rate swaps convert the interest payment profile from variable to a fixed rate. The derivative trading is performed only with institutions of recognized solvency and limits have been established for each institution. The policy of the Entity is to not trade for speculative purposes with derivatives.

The Entity recognizes all assets or liabilities that arise from transactions with derivative financial instruments in the balance sheet at fair value regardless of the purpose for holding. Fair value is determined based on recognized market prices as no quoted market prices are determined based on valuation techniques accepted in the financial field.

When derivatives are entered into to hedge risks, and meet all hedging requirements, their designation at the beginning of the hedge is documented, describing the objective, characteristics, accounting treatment and as conducted measurement effectiveness, applicable to that operation.

Derivatives designated as hedging recognize changes in valuation according to the type of coverage involved. The Entity has instruments that cover is cash flow, so that the effective portion is temporarily recognized in comprehensive income and recycled to the income when the hedged item affects; the ineffective portion is recognized immediately in income.

The Entity discontinues hedge accounting when the derivative instrument matures, has been sold, canceled or exercised, when it has not reached highly effective in offsetting changes in fair value or cash flows of the hedged item, or when the company decides to cancel the hedge designation.

On discontinuation of hedge accounting, the amounts have been recorded in equity as an integral part of the profit (or loss), remain in equity until such time that the effects of the forecasted transaction or firm commitment affect the results.

The Entity has fulfilled contracts with embedded derivatives, however, not because the conditions described in the guidelines of Bulletin C-10, *Derivative financial instruments and hedging operations*, they were not separated.

xii. ***Provisions*** - Provisions are recognized when there is a present obligation as a result of a past event, which will probably result in an outflow of economic resources, and can be reasonably estimated.

For the years ended December 31, 2015, and 2014, the value of the provision for removal of pipelines and other equipment amounting $83,120,770 and $36,675,558, respectively.

CSE Provision: Specific Services Contract fond (SSC) is the authorized under the contract maximum operating and maintenance provision. Those contracts with Specific Services were held in connection with the purchase of consumables, spare parts and provision of any service to maintenance subsystem. As of December 31, 2015 and 2014, the effects of this allowance are not significant.

xiii. ***Employee benefits*** - Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by the employee, which include all kinds of remuneration earned as follows:

i. ***Direct employee benefits*** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing (PTU) payable, compensated absences, such as vacation and vacation premiums, and incentives.

ii. ***Employee benefits from termination, retirement and other*** - The liability for seniority premium, pensions, and severance for termination of the employment relationship is recorded as accrued, which is calculated by independent actuaries based on the projected unit credit method using nominal interest rates.

iii. ***Statutory employee profit sharing*** - PTU is recorded in the results of the year in which it is incurred. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

As a result of the *2014 Tax Reform*, as of December 31, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 10 of the Income Tax Law.

xiv. *Income taxes* - Income tax (ISR) are recorded in results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry forwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.

xv. *Foreign currency transactions* - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income and other comprehensive income.

xvi. *Revenue recognition* - Revenue is recognized in the month in which the gas transportation and storage service is provided.

Revenues from administrative services and operation and maintenance are recognized in the period in which the risks and benefits are transferred to the customers, usually it occurs when the services required in compliance with the request.

xvii. *Cost of transportation and storage services recognition* - Cost of transportation and storage services are recognized in the month in which the transportation and storage service is received.

The costs of administrative services and operation and maintainance are recognized in the month in which the service is provided.

4. Cash and cash equivalents

	2015	2014
Cash	$ 382,857,915	$ 1,104,095,204
Cash equivalents– Investment funds	186,922,266	858,046,681
Total	$ 569,780,181	$ 1,962,141,885

On April 14, 2015, Gasoductos de Chihuahua agreed with the banks that it would grant a letter of credit to ensure a restricted cash account; based on the above Transportadora del Norte SH, S. de R. L. de C. V. and Bancomext held a credit agreement in the current guarantee account, in which it requested the issuance of a letter of credit amounting to 30,000,000 US dollars. Such reserve was released on April 17, 2015.

As part of the contract term loan mentioned in note 7, the Entity is required to retain 28,655,726 U.S. dollars equivalent $422,236,391 in Mexican pesos, as restricted cash to guarantee the payments of the loan.

5. Pipeline, land right-of-way, equipment and construction in progress – Net

	December 31, 2015	December 31, 2014	Balances at the beginning of 2014
a) Investment:			
Structures and compression station	$ 8,601,477,199	$ 3,708,687,473	$ 3,255,511,725
Pipeline and land right-of-way	13,302,451,855	6,773,528,333	1,841,386,348
Storage terminal	969,944,560	920,591,394	778,558,595
Allowance for funds used during construction	1,707,926,343	1,166,981,837	783,290,064

	December 31, 2015	December 31, 2014	Balances at the beginning of 2014
Asset retirement provision	71,617,149	29,938,212	26,568,870
Measurement and regulation equipment	211,367,340	9,234,534	8,195,251
Transportation equipment	37,798,392	15,792,485	10,762,822
Office furniture and equipment	17,345,597	16,803,837	16,653,784
Computer equipment	17,073,331	10,877,620	7,600,155
Communication equipment	2,155,025	2,652,529	2,339,538
Leasehold improvements	10,157,050	11,539,405	12,442,368
	24,949,313,841	12,666,627,659	6,743,309,520
b) Accumulated depreciation and amortization:			
Structures and compression station	1,950,295,778	1,359,898,466	1,083,414,760
Pipeline and land right-of-way	1,142,844,627	685,218,876	521,805,035
Storage terminal	93,554,970	39,074,197	-
Allowance for funds used during construction	308,838,224	214,514,047	163,105,224
Asset retirement provision	8,607,108	5,069,408	2,999,265
Measurement and regulation equipment	16,170,246	5,957,329	4,868,956
Transportation equipment	11,343,104	5,711,885	4,368,009
Office furniture and equipment	6,464,658	5,512,669	3,988,764
Computer equipment	5,764,583	7,561,550	4,564,274
Communication equipment	488,533	798,866	472,990
Leasehold improvements	1,475,498	2,946,261	3,152,535
	3,545,847,329	2,332,263,554	1,792,739,812
Construction in progress	-	4,440,183,949	1,765,399,322
Land	104,498,164	79,926,151	63,696,971
Inventory of gas in pipeline	109,387,376	103,697,054	69,738,308
Material and parts	164,486,848	75,568,806	70,400,503
	378,372,388	4,699,375,960	1,969,235,104
Total	$ 21,781,838,900	$ 15,033,740,065	$ 6,919,804,812

Depreciation in 2015 and 2014 that was recognized in results was $814,723,303 and $322,697,774, respectively.

6. Investment in joint-venture

As of December 31, 2015 the investment in joint-venture are as follow:

2015	Stockholders' equity	Carrying amount of participation	% Ownership percentage	Net income	Share in results (1)
Tag Norte Holding, S. de R. L. de C. V.	$5,668,621,116	$2,834,310,558	50	692,039,086	346,019,543

2014	Stockholders' equity	Carrying amount of participation	% Ownership percentage	Net loss	Share in results (1)
Tag Norte Holding, S. de R. L. de C. V.	$4,236,267,360	$2,118,133,680	50	(153,873,650)	(76,936,825)

The investment in associate is valued according to the equity method in the accompanying consolidated financial statements.

(1) In accordance with the shareholder agreement, the Entity owns 50% of voting rights at shareholders' meetings of Tag Norte Holding, S. de R. L. de C. V.

As of December 31, 2015 and 2014, the participation amounts to 106,720,632 and $(199,399,890), net of the effect of $239,298,911 and $122,463,065, in the effects of the comprehensive loss effects.

7. Long term debt and derivative financial instruments

a. As of December 31, the amount of the long term debt is as follows:

	2015	2014
Current portion of long-term debt with BBVA Bancomer, S. A. (1)	$ 617,684,899	$ 472,087,982
Current portion of long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	8,803	3,090,757
Current portion of long-term debt	$ 617,693,702	$ 475,178,739
Long term-debt BBVA Bancomer, S. A. (1)	6,225,549,380	5,808,834,040
Long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	4,251,651	765,587,454
Long term-debt	$ 6,229,801,031	$ 6,574,421,494

(1) **Loan with Bancomer, S. A.**

As of December 31, 2015 and 2014, the credit amounts to 406,710,918 and 439,412,130, U.S. dollars equivalent to $7,052,285,982 and $6,474,649,854 in Mexican pesos, respectively, net of financial cost expenses of 12,056,177 and 13,147,639 U.S. dollars, equivalent to $209,051,698 and $ 193,727,832, respectively, in Mexican pesos.

On December 5, 2013 Gasoductos de Chihuahua signed a credit agreement with BBVA Bancomer, S.A. as agent and Deutsche Bank Mexico, Fiduciary Division, as Fiduciary. The amount of the loan is 475,395,000 US dollars, the proceeds will be used to develop the projects that are in process. The four participating credit institutions are BBVA Bancomer with a 50% contribution, The Bank of Tokyo Mitsubishi with 20%, Mitzuho Bank with 15% and Norddeutsche Landesbank with 15%. The cash disbursements from the credit will occur in three different dispositions: January 15, 2014 for 192,000,000 US dollars, February 14, 2014 for 48,000,000 US dollars and March 10, 2014 for 235,395,000 US dollars. The debt issuance costs of this debt are shown net of the same and amounted to 15,013,537 US dollars.

The loan calls for quarterly amortizations starting on March 18, 2014 and ending in 2026 for a total term of 13 years.

The loan bears an interest at the London Interbank Rate ("LIBOR") plus 2.00% per year until the fifth anniversary, LIBOR plus 2.25% from the fifth to the eight anniversary, LIBOR plus 2.5% from the eighth to twelfth anniversary and LIBOR plus 2.75% from the thirteenth anniversary until its maturity.

In such credit, the Entity was defined as debtor, TDF together with GDT were assigned as guarantors and collaterals through the cession of the collection rights from their portfolio of projects integrated by GDC, TDF and GDT as a source of payment for the credit.

Covenants arising from the credit require the following:

1) Maintain a minimum members' equity during the term of the loan, in the amounts indicated:

	(U.S. Dollars)
Gasoductos de Chihuahua, S. de R. L. de C. V.	450,000,000
Gasoductos de Tamaulipas, S. de R. L. de C. V.	130,000,000
TDF, S. de R. L. de C. V.	90,000,000

2) Maintain an interest coverage of 2.5 to 1 at least on a consolidated basis (EBITDA to interest), for the payment of interest.

At the date of the consolidated financial statements, the Entity complied with these obligations.

Additionally, on January 22, 2014, the Entity was contracted a financial derivative instruments (swaps) with BBVA Bancomer, S.A, the Bank of Tokyo Mitsubishi, Mitzuho Bank and Norddeutsche Landesbank. Its to cover the interest rate risk on its debt total amount. The financial instruments change USD LIBOR for a rate of 2.63%.

The Entity has designated derivative financial instruments mentioned above under the model of cash flow hedges, in terms of what is permitted by the accounting standards. Given that, this interest rate swap, hedge objective is to set the flowing cash derived from interest payments on the syndicated loan maturing in 2026.

The effectiveness of these hedges is assessed quarterly. The results of these tests confirm as of December 31, 2015 hedging relationships are highly effective, since the changes in fair value and cash flows of the hedged item are offset by 100%. The method of measuring the effectiveness is the hypothetical derivative. Which compare the changes in the fair value of the hedging instrument, with the changes in the fair value of the hypothetical derivative that would result in a perfect hedge of the hedged item.

On the date indicated below, the notional amount and the interest rates paid and received by the swap on the line of credit from commercial banks, are described as follow.

Institution	Date of hire	Notional Value U.S. Dollar	Interest rate Receive	Pay	MTM As Of December 31, 2015 U.S. Dollar
BBVA Bancomer	January 22, 2014	237,697,500	US- LIBOR	2.63%	8,500,514
Bank of Tokyo Mitsubishi	January 22, 2014	95,079,000	US- LIBOR	2.63%	3,400,205
Mizuho Bank	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,550,154
Norddeutsche	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,550,154

Institution	Date of hire	Notional Value U.S. Dollar	Interest rate Receive	Pay	MTM As Of December 31, 2014 U.S. Dollar
BBVA Bancomer	January 22, 2014	237,697,500	US- LIBOR	2.63%	8,438,851
Bank of Tokio Mitsubishi	January 22, 2014	95,079,000	US- LIBOR	2.63%	3,385,071
Mizuho Bank	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,542,597
Norddeutsche	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,459,032

Notional value as of December 31, 2015 and 2014 was $7,044,421,273 and $6,468,208,668 Mexican pesos equivalent to 406,257,354 and 438,974,989 U.S. dollars, respectively; it covers the total debt of the credit from commercial banks, and the due date coincides with the covering liabilities.

The fair value of financial instruments is determined based on the market values prevailing at the reporting date. As of December 31, 2015 and 2014, the fair value of the financial instrument was $294,794,413 and $247,921,136 Mexican pesos equivalent 17,001,027 and 16,825,551 U.S. dollars, respectively. This was recorded as a liability under the supplementary account in stockholders' equity, through the effect of the period through the utility integral. The effect as of December 31, 2015 and 2014, was $201,714,285 and $168,736,530 Mexican pesos equivalent 11,633,023 and 11,451,566 U.S. dollars, respectively.

The fair value of interest rate swaps is calculated by adding the present value of the corresponding periodic cash flows.

As of December 31, 2015, the long term debt maturity is as shown below:

	Financial derivative instrument
2016	$ (153,527,091)
2017	(70,995,983)
2018	(36,799,740)
2019	(17,623,217)
2020	(16,394,331)
2021	(3,991,943)
2022	125,726
2023	1,400,839
2024	1,402,871
2025	1,289,777
2026	318,679
Total	$ (294,794,413)

Finally, as of December 31, 2015, the amounts reclassified from equity to income for maturity are the following amounts accrued:

Institution	Interest net
BBVA Bancomer	$ (80,079,860)
Bank of Tokio Mitsubishi	$ (32,031,944)
Mizuho Bank	$ (24,023,958)
Norddeutsche	$ (24,023,958)

(1) **Loan with Banco Nacional de Comercio Exterior, S. N. C.**

As of December 31 2015 and 2014, the credit amount 248,269 and 53,323,580 U.S. dollars equivalent $4,304,931 and $785,712,281 Mexican pesos, respectively, net of financial cost expenses of 2,565 and 1,253,439, equivalent $44,478 and $17,034,070 in Mexican pesos, respectively.

The long term debt with Banco Nacional de Comercio Exterior, S. N. C. has been acquired by the Entity in its subsidiaries Gasoductos del Noreste and Gasoductos del Sureste for the equivalent in Mexican pesos $76,000,000 and $46,200,000 dollars, respectively. Simple loan with Banco Nacional de Comercio Exterior, S.N.C. with a maturity on November 13, 2019 at a rate of TIIE plus 1.6%.

The value added tax in favor amounts are committed to the total amount of the credit line disposed as of December 31, 2015 and 2014, excluding the amount of interest which is paid quarterly.

(2) As of December 31, 2015, the long term debt maturity is as shown below:

2017	$ 687,578,078
2018	720,682,987
2019	682,572,555
2020	731,959,759
Later years	3,407,007,652
	$ 6,229,801,031

8. Employee benefits

Net period cost for obligations resulting from the pension plan and seniority premiums was $8,523,688 and $6,474,473 in 2015 and 2014, respectively. Other disclosures required by accounting standards are not considered material.

The Entity maintains a defined benefit pension plan for all employees, which pays benefits to employees who reach 65 years of age.

This plan also provides seniority premium benefits, which consist of a lump sum payment of 12 days' wage for each year worked, calculated using the most recent salary, not to exceed twice the minimum wage established by law. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

9. Asset retirement obligations

The obligations associated with the retirement of assets are recognized when a contractual or legal obligation exists, and a reasonable estimate of the measurement can be realized. The activities to be performed for removal of the specialized machinery includes: disconnection from the power supply and purge of gas, clogged pipe, keep track of disconnected pipes, etc. As of December 31, 2015 and 2014, Gasoductos de Chihuahua recorded the provisions for the asset retirement obligations based on the Mexican Official Standard NOM-117, as shown below:

	2015	2014
Samalayuca pipeline	$ 5,413,340	$ 4,299,141
Gloria a Dios compression station ("GAD")	6,431,042	5,107,374
San Fernando System	25,147,958	19,971,889
Burgos Monterrey LPG	9,188,347	7,297,154
Guadalajara Storage terminal	3,630,291	-
Los Ramones I	25,608,129	-
Ethane	7,701,663	-
Total	$ 83,120,770	$ 36,675,558

The estimated costs of these obligations have been recorded at present value of future cash flows based on the effective interest method using the appropriate discount rate, a risk-free rate of credit institution. This rate corresponds to 7% and 6% in the Entity. Likewise, we considered the remaining life of the Project as follows: Pipeline Samalayuca 12 years; compressor station GAD 7 years, San Fernando system 18 years, Burgos Monterrey LPG 12 years, Guadalajara Storage terminal 18 years, Los Ramones I 24 years and Ethane 20 years.

10. Members' equity

a. The Entity's capital is represented by 2 social parts, which represents the number of members of the Entity. Such social parts are composed of Series "A" which must represent the fixed portion at all times and Series "B" which must represent the variable portion at all times.

As of December 31, 2015 and 2014, subscribed and paid fixed social parts were $59,771,617 ($41,824,856 at nominal value) and subscribed and paid variable social parts were $1,063,541,270 ($744,273,786 at nominal value).

	Fixed social parts	Variable social parts	Total
Pemex TRI	$ 20,912,428	$ 372,136,893	$ 393,049,321
IEnova Gasoductos Holding, S. de R. L. de C. V.	20,912,428	372,136,893	393,049,321
	$ 41,824,856	$ 744,273,786	$ 786,098,642

b. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of social parts at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2015 and December 31, 2014, the legal reserve amounts to $157,219,728.

c. Members' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon the distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the members' equity tax accounts as of December 31, 2015 and 2014 are:

	2015	2014
Contributed capital account	$ 1,516,033,017	$ 1,484,414,978
Net tax income account (CUFIN)	5,292,113,493	4,841,249,129
Total	$ 6,808,146,510	$ 6,325,664,107

11. Foreign currency balances and transactions

a. As of December, the foreign currency monetary position is as follows:

	2015	2014
U.S. dollars:		
Monetary assets	84,686,968	184,477,556
Monetary liabilities	(682,622,973)	(742,527,935)
Net monetary liability position	(597,936,005)	(558,050,379)
Equivalent in Mexican pesos	$(10,368,090,747)	$ (8,222,760,736)

b. Transactions denominated in foreign currency were as follows:

	(In US dollar) 2015	2014
Transportation revenues	135,338,960	128,005,618
Operation and maitanance revenues	2,083,313	-
Services received	14,057,309	16,501,760
Interest expenses	19,912,068	14,587,632
Allowance for funds used during construction	19,298,438	19,298,438
Interest income	1,582,157	124,139
Other income	676,744	2,449,642

c. Mexican peso exchange rates in effect at the dates of the consolidated balance sheets and at the date of issuance of these consolidated financial statements were as follows:

	December 31, 2015	December 31, 2014	February 26, 2015
US dollar	$ 17.3398	$ 14.7348	$ 18.1680

12. Transactions with related parties

a. Transactions with related parties performed in the normal course of business were as follows::

	2015	2014
Revenues from natural gas transportation (PGPB)	$ 2,530,820,930	$ 1,772,678,907
Revenues from natural gas transportation (PEMEX Transformación Industrial)	$ 502,693,589	$ -
Revenues from natural gas transportation (PEMEX Logística)	$ 422,964,117	$ -
Revenues from storage service (PGPB)	$ 172,916,355	$ 211,703,494
Revenues from storage service (PEMEX Transformación Industrial)	$ 57,644,928	$ -
Revenue administrative service (TAG Pipelines)	$ 22,292,556	$ -
Income from recovery of expenses (PGPB)	$ 2,169,986	$ 4,215,145
Income from recovery of expenses (PEMEX Logística)	$ 2,356,621	$ -
Services received from operation and maintenance (TAG Norte Holding)	$ 33,999,363	$ -
Interest gain Tag Norte Holding (1)	$ 23,270,189	$ 8,868,596
PGPB penalizations	$ 4,754,094	$ -
Services received from operation and maintenance (PGPB)	$ 118,991,711	$ 196,740,613
Services received from operation and maintenance (PEMEX Logística)	$ 41,623,838	$ -
Interest payable Infraestructura Energética Nova (2)	$ 70,888,643	$ 25,278,701
Interest payable TAG Pipelines (3)	$ 58,722,756	$ 20,844,403
Interest payable Mex Gas Supply (4)	$ 11,867,969	$ 4,434,298

b. As of December 31, the balance are as follows:

	2015	2014
PEMEX Transformación Industrial – related party	$ 473,357,603	$ -
PEMEX Logística - related party	427,531,287	-
TAG Pipelines Norte, S. de R. L. de C. V. - related party	16,225,941	-
PEMEX Gas y Petroquímica Básica - related party	-	337,258,253
Total	$ 917,114,831	$ 337,258,253

c. On November 27, 1998, the Entity signed a contract with PGPB whereby receives operation and maintenance services for the system to transport natural gas. This contract stipulated a completion date of April 1, 2009 and could be renewed annually. This contract has been renewed every year with the same conditions.

d. On December 19, 2001, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it provides natural gas transportation services. This agreement expires in 20 years commencing on November 12, 2003 (commercial operational date).

e. On May 2, 2002, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it receives operation and maintenance ("O&M") services. This agreement expires in 20 years from the commercial operational date.

f. On December 15, 2005, TDF entered into an agreement with PGPB, in which it provides liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

g. On December 15, 2005, TDF entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

h. On February 21, 2012, TDN entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

i. On December 13, 2012, GDS entered into an agreement with PGPB, in which it provides services for the Ethane gas transportation services. This agreement expires in 21 years from the commercial operational date.

j. On February 17, 2013, TDN entered into an agreement with PGPB, in which it provides LPG storage services. This agreement expires in 15 years commencing on the beginning of the commercial operational date.

k. On July 19, 2013, GDN entered into an agreement with PGPB, in which it provides natural gas transportation services. This agreement expires in 25 years from the pipeline commercial operational date.

l. On December 19, 2013, the Entity modified the contract entered into on December 11, 2009 to provide natural gas transportation under the TF-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 40 mmcfd. This agreement has a term of one year with automatic annual renews.

m. On December 19, 2013, the Entity modified the contract entered into on December 11, 2009 to provide natural gas transportation under the TI-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 80 mmcfd. The modification includes a regulated rate and has a term of one year with automatic annual renews.

n. On December 19, 2013, the Entity made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TI-2 firm transport service scheme to PGPB for a firm baser. The modification includes a regulated rate and has term of one year with automatic annual renews.

o. On December 15, 2014, DEN celebrates and agreement with TAG Pipeline Norte, to provide O&M services. This agreement expires in 24 years from the pipeline commercial operation.

As of December 31, 2015, the loans balance are as follow:

a. Loans to affiliated parties:

	2015	2014
TAG Norte Holding, S. de R. L. de C. V. (subsidiary) (1)	$ -	$ 1,285,174,551

b. Loans from affiliated parties:

	2015	2014
Infraestructura Energética Nova, S. A. B. de C. V. (2)	$ 1,487,983,101	$ 1,824,958,368
TAG Pipelines, S. de R. L. de C. V. (3)	1,455,629,929	1,182,371,092
Mex Gas Supply, S. L. (4)	32,353,171	642,587,275
Total loans from affiliated parties	$ 2,975,966,201	$ 3,649,916,735

(1) As of December 31, 2014, the loan amount was US $86,618,478 equivalent to $1,276,305,955 Mexican pesos. This loan bear interest at LIBOR plus 465 basis points per month, documented in two promissory notes of US $43,309,239 each, with long maturity. As of December 31, 2014, interest totaled US $601,881 US dollars equivalent to $8,868,596 pesos. On May 15, 2015, the Entity had received full payment of the loan.

(2) As of December 31, 2015 and 2014, the loan amounts USD 80,542,968 and USD 122,039,816 equivalent to $1,375,440,312 and $1,798,232,281 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest amounting to USD 5,270,196 and USD 1,813,807 equivalent to $91,384,153 and $26,726,087 pesos, respectively.

(3) As of December 31, 2015 and 2014, the loan amount is USD 78,730,577 equivalent to $1,365,172,456 and $1,160,079,306 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest amounted USD 5,216,754 and USD 1,512,867 equivalent to $90,457,473 and $22,291,786 pesos, respectively.

(4) As of December 31, 2015 and 2014, the loan amount is USD 1,812,391 and USD 43,309,239 equivalent to $31,426,495 and $638,152,975 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest totaled USD 53,442 and USD 300,941 equivalent to $926,676 and $4,434,300 pesos, respectively.

13. Other income

	December 31, 2015	December 31, 2014
Tax actualization	$ 34,969,998	$ 5,265,154
Penalizations	6,159,015	-
Reimbursement of PGPB expenses	4,526,607	4,215,145
Income for compression increasing	-	7,044,652
Cash out	-	12,790,921
Insurance recovery	721,259	13,114,730
Other income – Net	183,486	1,479,519
	$ 46,560,365	$ 43,910,121

14. Other costs

	December 31, 2015	December 31, 2014
Cost of sales of fixed assets	$ 571,447	$ 19,839,110
Others	876,169	2,114,835
	$ 1,447,616	$ 21,953,945

15. Income taxes

The Entity is subject to ISR.

ISR - As a result of the new 2014 ISR law (2014Tax Law), the rate is 30% in 2015 and 2014 and it will continue at 30% in 2016 and thereafter.

The Mexican Board for Research and Development of Financial Regulations ("CINIF") issued INIF 20 Financial Effects of the Tax Reform 2015, effective as of December 31, 2014, to provide guidance regarding the accounting recognition of the issues included in the 2015 tax reform.

Income tax is calculated caused based on ISR

	2015		2014	
	ISR Current	Rate %	ISR Current	Rate %
Income before income taxes	$ 2,519,438,657	-	$1,057,175,895	-
Current tax	603,446,041	-	240,217,131	-
Deferred tax	582,434,418	-	368,561,554	-
Total income taxes	1,185,880,459	46%	608,778,685	58%
Effects of inflation	(55,187,093)	(2)%	(27,179,255)	(3)%
Non-deductibles and other	101,903,705	5%	107,284,653	10%
Convertion effect	(519,699,584)	(21)%	(369,026,798)	(35)%
Derivative financial instruments	(1,989,345)	-	(2,060,685)	-
Non-taxable income	44,923,455	2%	(643,831)	-
	$ 755,831,597	30%	$ 317,152,769	30%

a. The components of deferred income tax assets and liabilities were as follows:

	2015	2014
Provisions	$ (63,473,457)	$ (16,682,575)
Liabilities for statutory employee profit sharing ("PTU")	(1,881,256)	(890,852)
Pipelines, land right-of-way, equipment and construction in progress, net	2,548,989,815	1,498,256,579
Insurance	3,137,989	2,641,259
CSE provision	(44,153,908)	(30,761,701)
Operation and maintenance	-	(1,145,103)
Tax loss carryforwards	(888,187,401)	(483,794,161)
Financial contracting cost	49,502,485	51,688,606
Derivative financial instrument	(88,881,357)	(72,315,656)
Total deferred income taxes laibility	$ 1,515,052,910	$ 946,996,396

b. *Carryforwards* – As of December 31, 2015, the Entity has net operating loss carryforwards, which are available to offset future taxable income, and asset tax credits, which are available to offset future income taxes payable, as follows:

Year of expiration	Tax loss carryforwards
2022	$ 39,238,853
2023	234,469,577
2024	1,217,578,807
2025	1,469,337,433
	$ 2,960,624,670

16. Commitments

As of December 31, 2015, the Entity has the following commitments:

a. On November 27, 1998, Gasoductos de Chihuahua entered into an agreement with PGPB, in which it receives operation and maintenance ("O&M") services on the natural gas transportation system. This agreement expires in April 2009 however can be renewed on an annually basis, subsequently, the agreement has been renewed annually.

b. On February 15, 2001, Gasoductos de Chihuahua signed with CFE a contract to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for five years. The maximum daily capacity covered by this contract is 60 million cubic feet (ft3) per day ("mmpcd").

c. Gasoductos de Tamaulipas executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001 and stipulated a daily capacity of 1,000, million cubic ft. of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations).

d. On May 2, 2002, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it receives O&M services. This agreement expires 20 years from the commercial operational date.

e. On December 15, 2005, TDF signed an LP gas transportation services contract with PGPB. This service is established under the firm transport service scheme, with a daily transportation capacity of 4,470 $mt.^3$, equivalent to 30,000 barrels daily. The contract duration is 20 years with a regulated rate.

f. On December 15, 2005, TDF entered into an agreement with PGPB, in which it receives O&M services. This agreement expires 20 years from the commercial operational date.

g. On February 17, 2012, Gasoductos de Chihuahua signed storage agreement to provide liquid petroleum gas with PGPB under the firm storage service scheme with for a firm baser storage capacity of 2,403.88 tons equivalent to 30,000 barrels per day (BPD). The contract term is 15 years and includes the rate that is regulated by the CRE.

h. On June 18, 2012, a modification to the storage contract was signed, wherein Gasoductos de Chihuahua agreed to cede all the rights and obligations of the storage agreement to Transportadora del Norte SH.

i. On February 21, 2012, TDN entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

j. On December 13, 2012, Gasoductos del Sureste entered into an ethane gas transportation services contract with PGPB. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme with for a firm baser reserved capacity of : Segment I Cangrejera – Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI – Cangrejera 29,500 BPD, Segment Cactus – km 3 38,000 BPD, Segment II km 3 – Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex – Nuevo Pemex 105,600 BPD.

k. In case of delay of the commercial operational date, Gasoductos del Sureste is forced to pay to PGPB a daily penalty as follows: Segment I $7,500 for the first 30 days; $10,000 from day 31 to day 60, $15,000 from day 61 to day 90, $20,000 from day 91 to day 120, $25,000 from day 121 to day 150, $35,000 from day 151 to day 180 and $40,000 from day 181 onwards 67,500.

l. The maximum amount of penalties, from the signing of the contract to the commercial operational date, may not exceed 30,000,000 US dollars.

m. On April 16, 2014, GDS entered into an agreement with PGPB, in which it provides operation and maintenance services for the Ethane gas transportation services. This agreement expires in 20.5 years from the first segment commercial operational date.

n. On July 19, 2013, Gasodcutos del Noreste entered into an agreement to provide natural gas transportation services to PGPB The agreement has a term of 25 years from the date of commercial operation of the system with a conventional rate. It will be constructed in two stages, the date of commercial operation of the pipeline will be December 1, 2015 and the date of commercial operation of the compression system will be during December 2015. Two turbochargers will be added. This contract is under the scheme of firm transportation service basis with a reserved transport MMdpcd 1,000 in the first stage and the second 2,100 MMdpcd capacity.

This contract stipulates that if the system is not operating on the commercial operation date, GDN will pay PGPB daily penalties of $60,822 for every day of delay. The penalties for such delay may not exceed $22,000,000.

o. On December 19, 2013, Gasoductos de Chihuahua made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TF-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 40 mmcfd. The modification includes a regulated rate and is valid for one year with annual automatic renewal. The modification extends the maturity until December 31, 2015.

p. On December 19, 2013, Gasoductos de Chihuahua made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TI-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 80 mmcfd. The modification includes a regulated rate and is valid for one year with annual automatic renewal. The modification extends the maturity until December 31, 2015.

q. As of December 16, 2014, Gasoductos de Chihuahua celebrated the first modification agreement to the contract celebrated on December 21, 2012, to provide natural gas transportation under the TI-1 firm transport service scheme to Energía Chihuahua. The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

r. On October 22, 2014, Gasoductos de Chihuahua entered into a natural gas transportation services contract, under the TI-1 firm transport service scheme with CFE for a firm baser reserved capacity of 100 million cubic meters per day (mmcfd). The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

s. On October 22, 2014, Gasoductos de Chihuahua entered into an agreement to provide natural gas transmission under the TI-1 firm transport service scheme to CFE for a firm baser reserved capacity of 72 mmcfd. The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

t. On October 22, 2015, Gasoductos de Chihuahua entered into an agreement to provide natural gas transmission under the TI-2 firm transport service scheme to CFE for a firm baser reserved capacity of 72 mmcfd. The modification extends the maturity until December 31, 2014, and with automatically renewals for 1 year period.

u. On December 15, 2014, DEN celebrates and agreement with TAG Pipelines Norte, to provide O&M services. This agreement expires in 24 years from the pipeline commercial operation.

17. New accounting principles

As of December 31, 2015, the Consejo Mexicano de Información Financiera (CINIF) has issued the following NIFs which may affect the financial statements of the Entity:

a. Effective as of January 1, 2016:

NIF D-3, *Employee Benefits*

b. Effective as of January 1, 2018:

NIF C-2, Investment in financial instruments
NIF C-3, Accounts Receivable
NIF C-9, Provisions, contingencies and commitments
NIF C-16, Impairment of financial instruments receivable
NIF C-19, Financial Instruments payable
NIF C-20, Receivables Financing Instruments
NIF D-1, Customers income contracts
NIF D-2, Customer costs contracts

Improvements to NIF 2016 - The following improvements, which result in accounting changes were issued and are effective January 1, 2016:

NIF C-1, Cash and cash equivalents and NIF B-2, Statement of Cash Flows are modified to consider foreign currency cash and not cash equivalents. It also clarifies that initial valuation and subsequent cash equivalents should be at fair value.

Bulletin C-2, Financial instruments and Document of amendments to Bulletin C-2 –

xviii. The definition of financial instruments available for sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.

xix. Criteria for classifying a financial instrument as available for sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.

xx. The concept of purchase expenses is eliminated and the definition of transaction costs is incorporated.

xxi. The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, Investments in associates, joint ventures and other investments is established that in case of contributions in goods, they should be recognized at fair value which was negotiated between the owners or shareholders, unless they result from the capitalization of a debt, in case, it will be recognized by the capitalized amount.

Bulletin C-10, Derivative Financial Instruments and Hedging -

a) It is stated at the beginning of the coverage, in subsequent periods as the date of the financial statements to the effectiveness of the hedge assessed and must define the method used to measure effectiveness.

b) Clarifies how to designate a primary position.

c) Accounting for the transaction costs of a derivative to be recognized directly in profit or loss for the period at the time of acquisition and not amortized over its modified lifetime.

d) Details of the implicit recognition of derivative financial instruments are made.

The following improvements that do not cause accounting changes were issued:

NIF C-19, Financial Instruments payable (IFP) - clarifications are made with respect to: i) definition of transaction costs ii) amortization recalculation of the transaction costs iii) the entity must show, and support its accounting policy that meets the conditions to designate a financial liability at fair value through profit or loss. iv) disclose the gain or loss given an IFP and the fair value of fixed rate liabilities in a long term. Therefore, it incorporates an appendix support in the effectiveness interest rate calculation.

NIF C-20, Receivables Financing Instruments - changes to refine and clarify a number of concepts for the issuance of new accounting requirements relating to the issue of financial instruments and the final issuance of the International Financial Reporting Standard 9 Financial Instruments are incorporated. Among the major include: transaction costs and amortization, effective interest rate, credit deterioration, foreign currency instruments, debt instruments reclassification between fair value and receivable financing, value of money over time and disclosure qualitative and quantitative.

At the date of issuance of these consolidated financial statements, the Entity has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

18. Authorization to issue the consolidated financial statements

On February 26, 2016, the issuance of the accompanying consolidated financial statements was authorized by Ing. Antonio Hernández Benítez, Chief Financial Officer; and L.C. Silvia Cisneros Vazquez. Accounting VP; consequently, they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Entity's Board of Directors as well as approval at the ordinary shareholders' partners, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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