

# Third Quarter 2015 Financial Results

October 23, 2015

# Information regarding forward-looking statements

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# Outline

- Third-quarter 2015 financial results
- Project status
- Expected natural gas pipeline project tenders
- Transmission opportunities
- FIBRA E
- Gasoductos de Chihuahua acquisition update

# Third-quarter 2015 results

	Three months ended	
	September 30,	
<i>(Unaudited; net profit in millions of dollars, share count in millions, EPS in dollars)</i>	2015	2014
Adjusted EBITDA <sup>(1)</sup>	\$ 109	\$ 92
Profit for the period	\$ 13	\$ 64
Shares outstanding	1,154	1,154
Earnings per share (EPS)	\$ 0.01	\$ 0.06

- Third-quarter 2015 Adjusted EBITDA was \$109 million, compared to \$92 million in 2014
- Profit for the third-quarter 2015 was \$13 million, compared to \$64 million in the same period of 2014. The decrease of \$52 million was primarily due to:
  - Higher income tax expenses of \$42 million, compared with \$26 million in the same period of 2014, of which \$15 million and \$0.5 million were related to non-cash changes in the deferred tax balances in each of the periods, respectively
  - Gain on the sale recorded in the third quarter of 2014 of 50-percent of our equity interest in the first phase of the Energía Sierra Juárez wind generation facility was \$17 million (after tax);
  - Net finance cost was \$3 million compared with net finance income of \$3 million in the same period of 2014, mainly due to lower capitalization of interests and higher interest expense
  - Mark-to-market losses on the RBS interest rate swap of \$3 million compared with gains of \$2 million in the same period of 2014

(1) Adjusted EBITDA includes proportional share of EBITDA from joint ventures

# Foreign exchange effects on income tax

	Three months ended September 30,	
	2015	2014
Profit for the period	12.9	64.5
Income tax provision	(41.7)	(26.4)
Deferred portion of tax provision <sup>(1)</sup>	14.7	0.5
<i>Subtotal</i>	69.3	91.4
After-tax gain on sale	-	16.7
<i>Subtotal</i>	69.3	74.7
MTM RBS <sup>(2)</sup>	(3.2)	1.6
<i>Subtotal</i>	72.5	73.1
Net financing cost	(2.9)	2.5
<i>Subtotal</i>	75.4	70.6
Add: Adjusted tax benefit (expense)	(27.0)	(25.9)
<b>Net Operating Profit Less Adjusted Taxes (NOPLAT)</b>	<b>48.4</b>	<b>44.7</b>

Period	MXN Depreciation
3Q 2014	3.9%
<b>3Q 2015</b>	<b>8.2%</b>

*Under IFRS guidelines, revaluation of fixed assets at the end of each quarter resulting from translation of the Mexican peso value of these positions into US dollars at the end-of-quarter exchange rate. This value in US dollars is compared to the same value as measured at the end of the previous quarter. This revaluation results in tax gains or losses and these are recorded in the tax provision on our income statement.*

(1) Non-cash impact related to deferred tax balances  
(2) Mark-to-market impact of the RBS interest rate swap

# Gas segment pre-tax profit

	Three months ended	
	September 30,	
<i>(Unaudited; dollars in millions)</i>	<u>2015</u>	<u>2014</u>
Gas segment profit before income tax and share of profits of the joint venture	\$ 55	\$ 52

- Gas segment profit before income tax and share of profits of joint venture increased to US\$55 million in the third-quarter 2015, compared to US\$52 million in the same period of 2014, mainly due to the start of operations of the Sásabe - Guaymas segment of the Sonora pipeline, partially offset by higher operating expenses and other losses and gains.

# Power segment pre-tax profit

<i>(Unaudited; dollars in millions)</i>	Three months ended	
	September 30,	
	2015	2014
Power segment profit before income tax and share of profits of the joint venture	\$ 10	\$ 42

- Power segment profit before income tax and share of profits of joint venture was \$10 million in the third-quarter 2015, compared to \$42 million in the same period of 2014. The decrease of \$31 million is due to:
  - The \$19 million gain on the sale of 50 percent of our equity interest in the first phase of the Energía Sierra Juárez wind generation facility in the third-quarter of 2014, and
  - \$12 million due to lower operational results at the power plant due to lower capacity revenue and lower electricity prices

# Project updates

Project	CapEx (USD, millions)	Target COD <sup>1</sup>	Contract Term	Update
<b>Wholly-owned projects</b>				
Sonora pipeline	\$1,000	<b>In-service</b>	25 years	<ul style="list-style-type: none"> <li>• Segment I in- service</li> </ul>
		Q3 2016	25 years	<ul style="list-style-type: none"> <li>• Segment II construction proceeding on schedule</li> </ul>
Ojinaga – El Encino pipeline	\$300	Q1 2017	25 years	<ul style="list-style-type: none"> <li>• Construction activities to commence in the fourth quarter of 2015</li> </ul>
San Isidro – Samalayuca pipeline	\$110	Q1 2017	25 years	<ul style="list-style-type: none"> <li>• Construction activities to commence in the first half of 2016</li> </ul>
<b>Joint venture projects</b>				
Los Ramones Norte pipeline	\$1,450	Q1 2016	25 years	<ul style="list-style-type: none"> <li>• 25% indirect IEnova interest</li> </ul>
Ethane pipeline	\$380	Q4 2015	21 years	<ul style="list-style-type: none"> <li>• 50% indirect IEnova interest</li> <li>• Segment I in-service</li> <li>• Segment II in-service</li> <li>• Segment III pre-operational</li> </ul>

(1) Commercial Operations Date



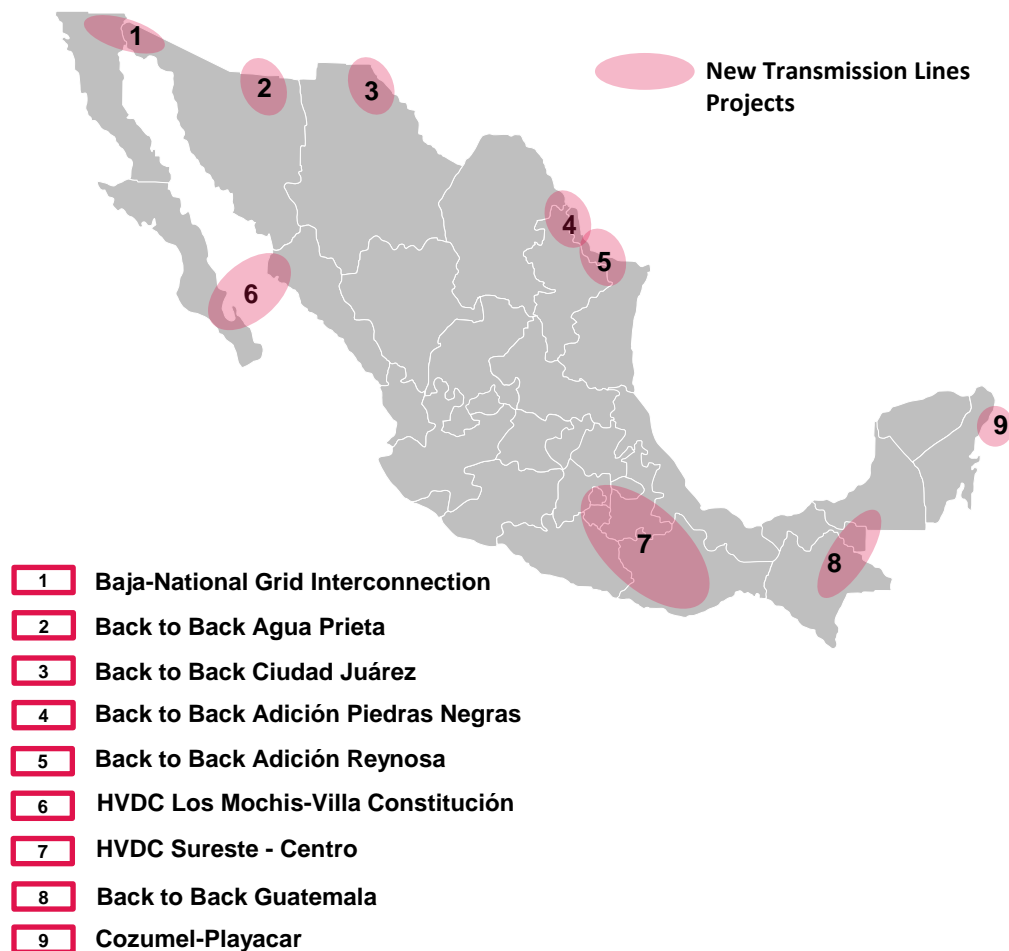
# Expected Mexico pipeline tenders

Project		CFE CapEx Estimate (\$ USD millions)
1	Tuxpan - Tula	540
2	Baja Sur	600
3	Texas - Tuxpan (marine pipe)	3,100
4	Tula - Villa de Reyes	420
5	Villa Reyes – Aguascalientes - Gdl	555
6	La Laguna - Aguascalientes	1,000
7	Colombia - Escobedo	375
8	Merida - Valladolid-Cancun	250
9	Jaltipan - Salina Cruz (Pemex)	643
10	Ramones - Cempoala (Pemex)	1,980
11	Lazaro Cardenas - Acapulco	456
12	Salina Cruz - Tapachula	442
<b>TOTAL</b>		<b>\$ 9,821</b>



# Potential electric transmission opportunities

## Mexico electric transmission investment opportunities



- The Ministry of Energy recently published the long term plan for the Development of the Electric National System “PRODESEN”, where new generation power plants and transmission lines are being planned for different regions of Mexico
- The plan also schedules the decommissioning of old diesel and fuel oil generators located in Mexicali, Ensenada and Rosarito (649 MW in total from 2015-2025)
- The PRODESEN includes the interconnection of the Baja grid to the Mexican National Grid in the State of Sonora (2019) and some important cross-border transmission lines in the Mexico-US border
- The long term plan mentions a new High Voltage Direct Current Line of 600 km that connects renewable projects in Oaxaca to central México

# FIBRA E infrastructure investment vehicle

- The Mexican authorities have published the rules setting out the requirements for the creation of a new Energy and Infrastructure Investment Trust (FIBRA E).
- The new FIBRA E will provide vehicles for investment by both, investors and the general public, offer significant tax and economic advantages similar to the Master Limited Partnership (MLP) structures used in other countries.
- The administrative rules released by the Mexican Authorities establish the tax regime applicable for the FIBRA E, the holders of certificates issued by the FIBRA E and also Promoted Companies whose shares are contributed to a FIBRA E.
- We are evaluating some scenarios in order to determine the potential benefits of the FIBRA E for IEnova, and we are studying the tax implications of the structure.

## KEY ATTRIBUTES

- *Similar to real estate FIBRAs, the FIBRA E will be required to distribute the majority of its pre-tax earnings to shareholders and must also commit to certain growth targets*
- *Must be 'brownfield' assets that have been in-service for at least 12 months*
- *May provide the ability to monetize a Sponsor's asset(s) while providing additional tax benefits to shareholders*
- ***Potential complication:*** *assets transferred to a FIBRA E are considered as a sale for tax purposes and taxes are paid on the taxable gain*

# Gasoductos de Chihuahua acquisition updates

We received IEnova shareholder approval on September 14, including approval to issue equity up to 330 million additional shares



We are only pending Mexican Federal Competition Commission approval to close the acquisition



The full equity purchase price will be funded with a bridge loan; the transaction will be permanently financed using equity or debt, subject to market conditions



The transaction brings significant value to IEnova and its shareholders, providing improved liquidity and control of strategic operating assets while still maintaining a joint venture with Pemex



# Summary

- Delivering strong growth with more projects commencing operations
- Final approvals for and the subsequent closing of the Gasoductos de Chihuahua acquisition expected during the fourth quarter
- Continuing to execute our growth strategy

# Appendix

# Foreign exchange effects on income tax

## Tax Impacts of Foreign Exchange and Inflation under IFRS

	Net Monetary Position		Fixed Assets
	Assets	Liabilities	
Peso Devaluation	<TAX EXPENSE>	<TAX BENEFIT>	<TAX EXPENSE>
Peso Appreciation	<TAX BENEFIT>	<TAX EXPENSE>	<TAX BENEFIT>
Mexico Inflation	<TAX BENEFIT>	<TAX EXPENSE>	<TAX BENEFIT>

