Annual report pursuant to the Mexican Rules for Securities Issuers and for Other Securities Market Participants, for the year ended December 31, 2015.

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

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As of December 31, 2015, Infraestructura Energética Nova, S.A.B. de C.V. ("we" or the "Company") had 1,154,023,812 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 our capital and 1,154,018,812 were Class II registered shares of common stock, no par value, representing the variable portion of our capital.

Our 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."

We have established 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. We have two series of Notes outstanding under this program, which are listed for trading on the Mexican Stock Exchange under the symbols "IENOVA 13" and "IENOVA 13-2."

Registration with the Mexican Securities Registry does not imply any certification as to the investment quality of our securities, our 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: We make 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: We will repay the principal amount of the Notes in a single installment on the Maturity Date.
Early full Repayment of Principal: We 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 our 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 at the time of issuance: "Aaa.mx", which is the highest rating, representing minimum credit risk 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 our 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, we may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes our 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 our control, or to the sale of our 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: We make 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: We will repay the principal amount of the Notes in a single installment on the Maturity Date.
Prepayment in full: We 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 our 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: “Aaa.mx”, which is the highest rating, representing minimum credit risk 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 our 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, we may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes our 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 our control, or to the sale of our indispensable assets or the creation of liens thereon.

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PRESENTATION OF INFORMATION

Financial Statements

Our consolidated financial statements and other financial information of IEnova presented herein were prepared in U.S. dollars.

Our functional currency is the U.S. dollar, other than with respect to our natural gas distribution business, for which our functional currency is the Mexican peso, and our reporting currency is the U.S. dollar. For the purposes of presenting our consolidated financial statements, the assets and liabilities of our 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 exchange rates at the dates of the related transactions. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. We prepare our 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 our audited consolidated financial statements as of and for the years ended December 31, 2013, 2014 and 2015. Our 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.

This report also includes the audited consolidated financial statements of Gasoductos de Chihuahua, S. de R.L. de C.V., or Gasoductos de Chihuahua, as of and for the years ended December 31, 2014 and 2015, which were prepared in Mexican pesos. The audited consolidated financial statements of Gasoductos de Chihuahua have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere herein. The financial statements of Gasoductos de Chihuahua have been prepared in accordance with Mexican Financial Reporting Standards issued by the Mexican Financial Reporting Standards Board (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.*). Mexican Financial Reporting Standards differ in certain significant respects from IFRS. Therefore, the financial statements of Gasoductos de Chihuahua are not comparable with our audited consolidated financial statements. Considering that Gasoductos de Chihuahua is an entity in which we and Pemex Transformación Industrial, or Pemex TRI, each hold a 50% interest and over which we share joint control, we account for this entity in our financial statements using the equity method, including the necessary adjustments to align its accounting policies with ours under IFRS. Summarized financial information presented in U.S. dollars and in compliance with IFRS of Gasoductos de Chihuahua is disclosed in Note 11 to our consolidated financial statements contained elsewhere in this report.

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.

We have made these statements on the basis of information from third party sources that we believe 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 we have no reason to believe that any of this information is inaccurate in any material respect, such information has not been independently verified and, therefore, we cannot guarantee its accuracy or completeness.

Some data are also based on our estimates, which are derived from our review of internal surveys and analyses, as well as from independent sources. Although we believe these sources are reliable, we have 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 we present. Data regarding our industry are intended to provide general guidance but are inherently imprecise. Though we believe 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.17.2065 to US$1.00, which was the selling exchange rate in effect on December 30, 2015, as reported by Banco de México in the Mexican Official Gazette.

We also reference 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 we have 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, we also provide 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 Our 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. We also note 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
"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"	Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*).
"audited financial statements"	Our audited consolidated financial statements as of and for the years ended December 31, 2013, 2014 and 2015, including the notes thereto.
"Banco Santander (México)"....................................	Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México.
"Banking and Securities Commission"......................	Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*).
"basis point"	One-hundredth of one percent (e.g., 30 basis points = 0.30%).
"Bbl"..	Barrels.
"Bbld"..	Barrels per day.
"BlackRock"..	BlackRock, an asset management entity.
"Bloomberg"..	Bloomberg L.P.
"Braskem IDESA"...	Braskem Idesa, S.A.P.I. de C.V.
"British Petroleum"	BP, p.l.c., a private limited company organized under the laws of the United Kingdom.
"Btu"..	British thermal units.
"Business flat tax"	The Mexican business flat tax *(impuesto empresarial a tasa única*).
"CAISO"	California Independent System Operator
"CEL"	Clean energy certificates.
"Center for the Control of Natural Gas"	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.

"Company" .... Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.

"Corporations Law" .... The Mexican General Corporations Law (*Ley General de Sociedades Mercantiles*), as amended from time to time.

"Credit Suisse México" .... Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México).

"Distribution terms and conditions" .... The terms and conditions for the provision of natural gas distribution services (*Términos y Condiciones para la Prestación del Servicio de Distribución de Gas Natural*), which constitute an integral part of our gas distribution permits.

"dollars" or "US$" .... U.S. dollars, the official currency of the United States.

"EBITDA" .... Earnings before interests, taxes, depreciation and amortization.

"Ecogas" .... Ecogas México, S. de R.L. de C.V., our natural gas distribution system.

"Energía Sierra Juárez" .... Energía Sierra Juárez, S. de R.L. de C.V., a 155 MW wind powered generation project in which we 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, owned by our joint venture with Pemex TRI.

"Exchange rate" .... The Mexican peso/U.S. dollar exchange rate published by Banco de México in the Mexican Official Gazette

"Federal Electricity Commission" .... The Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*), a Mexican government-owned company.

"FERC" .... The U.S. Federal Energy Regulatory Commission.

"First Reserve" .... First Reserve, an asset management entity.

"Gasoductos de Chihuahua" or "joint venture with Pemex TRI". .... Gasoductos de Chihuahua, S. de R.L. de C.V., which operates the San Fernando pipeline, the Samalayuca pipeline, the TDF LPG pipeline, the Gloria a Dios compression station, the Guadalajara LPG storage facility, the Los Ramones I pipeline, the Ethylene pipeline and the Los Ramones Norte

	pipeline.
"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 of the Samalayuca pipeline and Mexican Center for the Control of Natural Gas' Ciudad Juárez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua, owned by our joint venture with Pemex TRI.
"Guadalajara LPG terminal"	The 80,000 Bbl (4.4 MMTh) LPG storage facility owned by our joint venture with Pemex TRI.
"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), which is currently under construction. 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 Gasoductos Holding"	IEnova Gasoductos Holding, S. de R.L. de C.V., the subsidiary through which we hold our interest in Gasoductos de Chihuahua, our joint venture with Pemex TRI.
"IEnova LNG"	IEnova LNG, S. de R.L. de C.V.
"IFRS"	International Financial Reporting Standards issued by the IASB.
"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.
"indirect controlling shareholder"	Sempra Energy.
"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.
"JPM Ventures Energy"	JPM Ventures Energy México, S. de R.L. de C.V., an affiliate of J.P. Morgan.
"km"	Kilometers.
"kWh"	Kilowatt hours.
"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*), as amended from time to time.
"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, owned by our joint venture with Pemex TRI. 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, in which we hold an ownership interest through our joint venture with Pemex TRI. 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. The Los Ramones Norte pipeline was developed by a joint venture among Gasoductos de Chihuahua, certain Pemex subsidiaries, BlackRock and First Reserve.
"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 Financial Reporting Standards"	The financial reporting standards issued by the Mexican Financial Reporting Standards Board (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.*).
"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.
"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.
"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 Securities Registry"	Mexican National Securities Registry (*Registro Nacional de Valores*).
"Natural Gas Regulations"	The Mexican Natural Gas Regulations (*Reglamento de Gas Natural*).
"NCPI"	The Mexican National Consumer Price Index (*Índice Nacional de Precios al Consumidor*).
"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.
"Notes"	Our domestic senior notes (*Certificados Bursátiles*).
"Ojinaga–El Encino pipeline"	The approximately 220 km, 42-inch diameter pipeline with a transportation capacity of 1,356 MMcfd (14.1 MMThd), located in the State of Chihuahua, which is currently under construction.
"Other comprehensive income"	Our other comprehensive income.
"Pemex TRI"	Pemex Transformación Industrial, a Pemex subsidiary.
"Pemex"	Petróleos Mexicanos, a Mexican government-owned company.
"pesos" or "Ps."	The Mexican peso, the official currency of Mexico.
"PUHCA"	The U.S. Public Utility Holding Company Act of 2005.
"report"	This annual report for the year ended December 31, 2015.
"Rosarito pipelines system"	The system 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). It also includes a 30,000 horsepower compression station.
"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.
"Samalayuca pipeline"	The system comprised of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd), owned by our joint venture with Pemex TRI, 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.
"Santander"	Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México.
"SMBC"	Sumitomo Mitsui Banking Corporation.
"San Fernando pipeline"	The system comprised of approximately 114 km of 36-inch diameter pipeline and two compression stations with an aggregate of 95,670 horsepower, owned by our joint venture with Pemex TRI. The pipeline runs from our El Caracol compression station in Reynosa, Tamaulipas to our 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, which is currently under construction pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015.
"Sásabe–Puerto Libertad–Guaymas pipeline"	The first segment of the Sonora pipeline, comprised of approximately 505 km of 36-inch diameter pipeline with a transportation capacity of 770 MMcfd (8.0 MMThd). It includes the 220 km Sásabe–Puerto Libertad and the 285 km Puerto Libertad–Guaymas sub-segments.
"SDG&E"	San Diego Gas & Electric Company, an affiliate of Sempra Energy.
"Securities Market Law"	Mexican Securities Market Law (*Ley del Mercado de Valores*).
"Sempra Energy"	Sempra Energy, a California corporation and our 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, a business operating division of Sempra Energy that includes the United States subsidiaries of the Company that sell LNG and buy and/or sell natural gas and electricity to and /from the latter.
"Sempra Services Company"	Sempra Services Company, S. de R.L. de C.V.
"Sempra Servicios México"	Sempra Servicios México, S. de R.L. de C.V.
"Shell"	Shell México Gas Natural, S. de R.L. de C.V.
"SNG"	National pipeline system.
"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 comprised of the interconnecting Sásabe–Puerto Libertad–Guaymas segment with a capacity of 770 MMcfd (8.0 MMThd) and the Guaymas–El Oro segment with a capacity of 510 MMcfd

	(5.3 MMThd), located in the states of Sonora and Sinaloa.
"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 our LNG and LPG storage permits, respectively.
"TAG Norte"	TAG Norte Holding, S. de R.L. de C.V., the developer of the Los Ramones Norte pipeline, in which our joint venture with Pemex TRI holds a 50% interest.
"TAG Norte joint venture"	TAG Norte Holding, S. de R.L. de C.V., together with TAG Pipelines Norte, S. de R.L. de C.V., a joint venture between Gasoductos de Chihuahua and an affiliate of Petróleos Mexicanos, or Pemex, on one hand, and a consortium comprised of BlackRock and First Reserve, on the other hand, which owns the Los Ramones Norte pipeline.
"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, owned by our joint venture with Pemex TRI.
"Termoeléctrica de Mexicali"	Termoeléctrica de Mexicali, S. de R.L. de C.V., or the power plant operated by it, as the context may require.
"TGN pipeline"	The 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.
"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 our 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.
"USPPI"	The U.S. Producer Price Index.
"VAT"	The Mexican value added tax (*Impuesto al Valor Agregado*).
"WECC"	Western Electricity Coordinating Council.

EXECUTIVE SUMMARY

This summary highlights our activities and our financial and operational information and is not intended to be complete or a substitute for the remainder of this report. Before investing in our securities, you should read this entire report carefully for a more complete understanding of our business and this offering, including our 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.

Our Company

We are the first publicly listed private sector company engaged in energy infrastructure in Mexico and one of the largest private sector energy companies in the country. We focus on the development, construction and operation of large energy projects in Mexico. Our footprint in Mexico ranges across several business lines encompassing the entire energy infrastructure value chain.

Our assets are divided between two business segments: (1) our gas segment, which includes our pipelines business, our LNG business, and our natural gas distribution business, and; and (2) our power segment, which includes a natural-gas-fired, combined-cycle power generation facility and a wind power generation project. The Company's assets generate revenues primarily under U.S. dollar-denominated contracts with creditworthy counterparts, which are long-term in nature.

The Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990s as a result of changes to Mexican energy regulation in 1995. Specifically, these changes allowed private participation in natural gas pipelines, distribution and storage. During the last 20 years we have increased our presence as leaders in private investment in the Mexican energy sector (including through greenfield development, organic growth and acquisitions), investing approximately US$4.0 billion in Mexican energy infrastructure, both directly and through joint ventures.

Our achievements as pioneers in private investment in Mexican energy infrastructure include the following:

- we were 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; we own and operate 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, Cuauhtémoc and Anáhuac) and La Laguna–Durango (since 1999, serving the cities of Torreón, Gómez Palacio, Lerdo and Durango);

- we built the first natural gas pipeline in the state of Baja California, and we have 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);

- our 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;

- we own and operate the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located in the city of Mexicali, Baja California, which began operations in 2003;

- we built the first LNG terminal on the west coast of the Americas;

- we are partners with state-controlled Pemex TRI in Gasoductos de Chihuahua, the first natural-gas-infrastructure joint venture in Mexico, and have entered into an agreement with Pemex TRI to purchase its 50% interest in Gasoductos de Chihuahua (subject to the receipt of the requisite approvals);

- through our joint venture with InterGen, we built and currently operate the first cross-border renewable energy project in Mexico, Energía Sierra Juárez;

- through our joint venture with Pemex TRI, we built and currently operate the first privately owned ethane pipeline system in Mexico;

- pursuant to two natural gas transportation service agreements entered into with the Mexican Federal Electricity Commission in October 2012, we are developing the Sonora pipeline system with an aggregate length of approximately 835 km, comprised of the Sásabe–Puerto Libertad–Guaymas segment with a capacity of 770 MMcfd (8.0 MMThd), which is currently in operation, the Guaymas–El Oro segment with a capacity of 510 MMcfd (5.3 MMThd), and two compression stations;

- through our joint venture with Pemex TRI, we developed the Guadalajara LPG terminal with a combined capacity of 80,000 Bbl (4.3 MMThd) divided among four spheres, each with approximately 20,000 Bbl (4.4 MMThd) of capacity, which began operations in 2013;

- through our joint venture with Pemex TRI, we developed the approximately 116 km, 48-inch diameter Los Ramones I pipeline with 2,100 MMcfd (21.8 MMThd) of capacity, which began operations in December 2014;

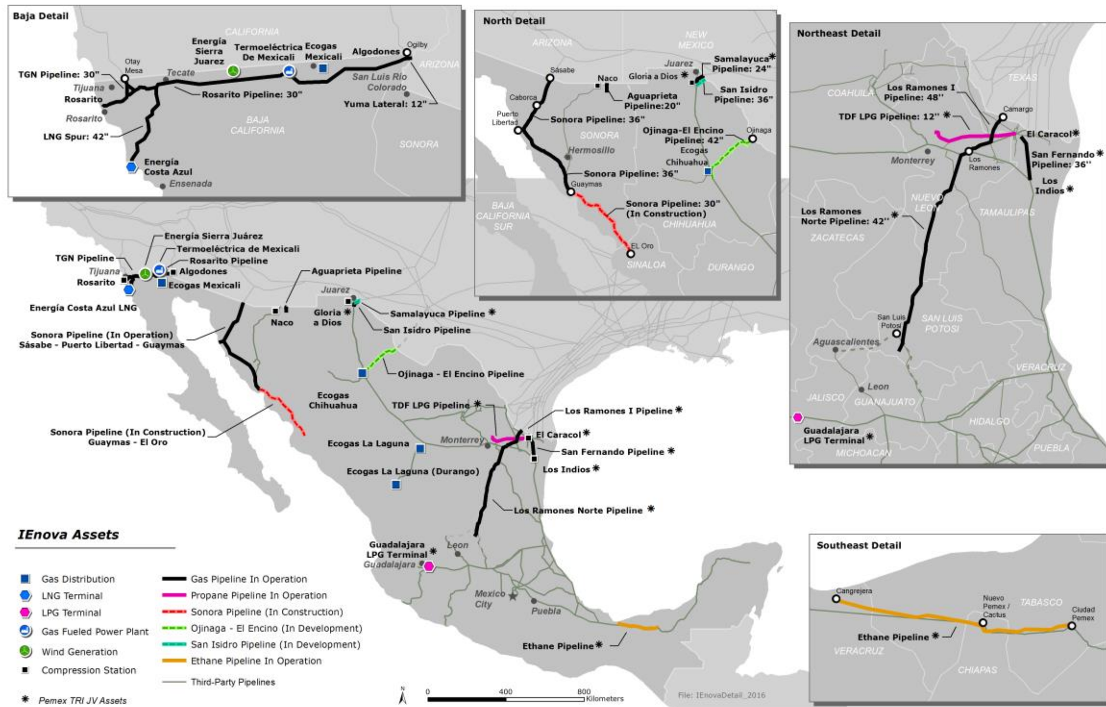
- through our TAG Norte joint venture, we developed and built the Los Ramones Norte pipeline system, comprised of approximately 452 km of 42-inch diameter pipeline with 1,420 MMcfd (14.8 MMThd) of capacity and two compression stations, which began operations in February 2016;

- pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in December 2014, we are developing the approximately 220 km, 42-inch diameter Ojinaga–El Encino pipeline with a capacity of 1,356 MMcfd (14.1 MMThd); and

- pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015, we are developing the approximately 23 km San Isidro–Samalayuca pipeline with a capacity of 1,135 MMcfd (11.8 MMThd), which includes a compression station;

In addition to our ownership of assets across the energy infrastructure value chain, we have also improved our market position by entering into strategic partnerships. In 2010 we acquired various Mexican assets, including a 50% interest in our joint venture with Pemex TRI. The joint venture with Pemex TRI currently develops, owns and operates natural gas, LPG and ethane pipelines, compression stations and storage facilities. Additionally, we entered into a 50/50 joint venture with an affiliate of InterGen for the development, construction and operation of the initial phase of our wind powered generation project, Energía Sierra Juárez. Through our joint venture with Pemex TRI, we also entered into a joint venture with a Pemex affiliate and a consortium comprised of BlackRock and First Reserve for the development of the Los Ramones Norte pipeline.

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



Gas Segment

- *Pipelines Business*

    - We own and operate systems for receiving, transporting, compressing, storing and delivering natural gas, LPG and ethane throughout the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems, some of which are currently under construction and include those developed through our joint venture with Pemex TRI, encompass the following:

        - more than 2,500 km of natural gas pipelines (of which approximately 1,025 km were under construction as of December 2015) with an aggregate design capacity of over 11,300 MMcfd (117.5 MMThd);

        - eight natural gas compression stations in operation, and four compression stations currently under construction, with an aggregate of over 480,000 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 239 MMcfd (2.5 MMThd); and

        - LPG storage facility with a total capacity of 80,000 Bbl (4.4 MMTh).

- Our current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station, as well as the Sonora pipeline, Ojinaga–El Encino pipeline and San Isidro–Samalayuca pipeline that are currently under construction.

- Our pipeline assets also include the assets held by our joint venture with Pemex TRI, in which we hold a 50% interest. The joint venture with Pemex TRI owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Los Ramones I pipeline, Ethane pipeline, Gloria a Dios compression station and Guadalajara LPG terminal. In addition, through the TAG Norte joint venture, Gasoductos de Chihuahua owns the Los Ramones Norte pipeline, which began operations in February 2016.

- *Liquefied Natural Gas Business:* Our LNG terminal, located near Ensenada, Baja California, began operations in 2008 and was the first LNG receiving facility on the west coast of the Americas. The terminal provides receipt and storage facilities for our customers' LNG, regasifies this LNG and delivers the resulting natural gas to our Rosarito pipelines system with delivery capability in Baja California and the United States. Our LNG business also purchases LNG on its own behalf for storage and regasification in our LNG terminal and sells natural gas to related parties and third-party customers. The terminal has a storage capacity of 320,000 m3 (73.3 MMTh) in two tanks, each of 160,000 m3 (36.6 MMTh), and 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).

- *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, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,658 km in length, this system currently serves over 113,000 industrial, commercial and residential customers.

- In 2015 our gas segment had revenues of approximately US$526 million, which accounted for 78% of our total consolidated revenues, and an adjusted EBITDA of approximately US$367 million, which accounted for 94% of our total adjusted EBITDA for the period. This revenue figure does not include net equity in earnings of US$41 million from our joint venture with Pemex TRI, which we account for using the equity method; however, we include a 50% share of the EBITDA from this joint venture in our adjusted EBITDA for our gas segment.

Power Segment

- *Natural Gas Fired Power Generation Business*: We own and operate our 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 our Rosarito pipelines system, which allows it to receive regasified LNG from our 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 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 at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California.

  In February 2016 our board of directors approved a plan involving the sale of our Termoeléctrica de Mexicali power plant. As a result, beginning in 2016 the results of Termoeléctrica de Mexicali will be included in our consolidated statements of profit under "Discontinued operations."

- *Wind Powered Generation Business.* Through our joint venture with InterGen, in which we hold a 50% interest, we own the Energía Sierra Juárez wind generation project, located 112 km south of San Diego,

along the Sierra de Juárez mountain ridge in the State of Baja California. This project, which began operations in July 2015, produces approximately 155 MW though 47 wind turbines.

- In 2015 our power segment had revenues of approximately US$143 million, which accounted for 21% of our total consolidated revenues, and an adjusted EBITDA of approximately US$24.9 million, which accounted for 6% of our total adjusted EBITDA for the year.

Our Strengths

We believe the following competitive strengths distinguish us from our competitors and are critical to the continued successful execution of our strategy.

- ***Proven development capability and extensive experience operating diverse energy assets.*** With over 20 years of experience operating in Mexico, we have developed the necessary skills and relationships to successfully build, own and operate critical energy infrastructure in the country. Over this time, we have 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. We made our first investment in Mexico in 1996, when we won the first private natural gas distribution permit awarded in Mexico, and have subsequently developed our Ecogas business into a model natural gas distribution company. Our largest project to date is the investment of US$1.2 billion in our LNG terminal. Other notable projects include our approximately US$350 million investment to construct our natural gas-fired combined-cycle power plant in Mexicali, Baja California, our 2010 acquisition of US$300 million of Mexican energy infrastructure assets from El Paso Corporation, which included our joint venture with Pemex TRI, and our US$200 million investment in expanding our Rosarito pipelines system and TGN pipeline. In addition, in the past few years we completed the first segment of the Sonora pipeline for a total investment of approximately US$1.0 billion, and our joint venture with Pemex TRI completed the Los Ramones I pipeline, Los Ramones Norte pipeline, Ethane pipeline and Guadalajara LPG terminal, which represented an aggregate investment of approximately US$2.0 billion (on a 100% completion basis).

- ***Well capitalized to explore new opportunities in the energy industry.*** As of December 31, 2015, we had debt of approximately USD$877 million and a debt to adjusted EBITDA ratio of 2.2x, providing us with flexibility to explore acquisition, growth and new project opportunities in competitive terms. We have a proven ability to access the capital markets, having raised US$599 million in the equity market and US$408 million in the debt market in March and February 2013, respectively. Furthermore, we have obtained a US$600 million credit facility which may be drawn upon to supplement the cash flows generated by our operations and meet our short-term capital needs.

- ***Cash flow stability and visibility through long-term contracts.*** We have contracted out a substantial portion of the capacity of our assets across our business segments under long-term agreements under which our customers are required to pay us regardless of whether they actually use their contracted capacity, which helps provide us with steady and predictable long-term cash flows. Substantially all of these contracts are with stable, creditworthy, private counterparties or Mexican government-related entities and are U.S. dollar-denominated. In addition to enhancing the stability of our cash flows, these firm capacity supply agreements also minimize our direct exposure to commodity price risk. The current fee structure minimizes our market risk in that rates, which for some of our contracts are regulated by the Mexican Energy Regulatory Commission, are adjusted regularly to account for inflation or fluctuations in exchange rates.

- ***Broad footprint of energy assets covering wide market opportunity set.*** Our assets are diversified across the entire energy infrastructure value chain that is open to private investment in Mexico, including pipelines, LNG, natural gas distribution and power generation. Given our scale, geographic position and diverse asset base, we believe we are ideally positioned to continue to expand and build out our platform of energy infrastructure assets. Given our track record as pioneers in private energy infrastructure investment in Mexico and our relationships with key players in the industry, we are well-positioned to expand into new energy sectors as opportunities for private investment arise. In addition,

as the majority of our energy infrastructure assets are located across northern Mexico, we are strategically positioned to be a key player in the growing demand for the importation and transportation of hydrocarbons across the Mexico–U.S. border.

- ***First-mover in developing Mexico's private energy infrastructure.*** We are one of the few privately held companies in Mexico that owns and operates energy infrastructure, and we were one of the first privately-held companies to become involved in the Mexican energy infrastructure market. Since the Mexican government opened the natural gas sector to private investment in 1995, we have invested approximately US$4.0 billion in energy infrastructure in the country, successfully expanding into several sectors as changes to Mexican regulations have opened up new areas to private investment. This experience as pioneers in owning and operating energy infrastructure in Mexico has helped us establish a leading position in our industry. Currently, we rank first and second among private companies in terms of market share in the LNG and pipelines markets in Mexico. We are well-positioned to act as a first-mover in new energy markets as additional opportunities arise, capitalizing on our extensive experience.

- ***Solid record of compliance and positive relationships with Mexican regulatory agencies and government-owned companies.*** We have worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies over the past 20 years and have developed a deep understanding of the regulatory process regarding the Mexican energy sector. We believe our cooperation and close coordination with the relevant regulatory bodies in Mexico are key strengths of our business, and we intend to continue to nurture and build upon these positive relationships. We also have long-term contractual relationships with government-controlled energy companies (Pemex and the Mexican Federal Electricity Commission), as well as permits and authorizations to develop and operate our energy assets in Mexico.

- ***Experienced management team.*** Our management team has extensive experience in the energy infrastructure sector. The members of our senior management team have an average of over 18 years of experience operating and developing assets in the Mexican energy sector. We have 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. We believe our management team is one of our principal competitive strengths relative to our industry peers.

- ***World-class parent company.*** We also benefit from the strong support of our indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale. Based in San Diego, California, Sempra Energy is a Fortune 500 company providing energy services, with revenues of approximately US$10 billion in 2015. Sempra Energy companies employ nearly 17,000 people and provide energy-related products and services to more than 32 million consumers worldwide. Through our relationship with Sempra Energy, we expect 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. We believe this access should, among other things, continue to maximize the operational and financial performance of our assets and enhance the efficiency of our current operations as well as our growth and expansion projects.

Summary Financial Information

(in thousands of U.S. dollars)	Year ended December 31, 2013	2014	2015
Revenues	US$ 677,836	US$ 822,796	US$ 671,703
Depreciation and amortization	(61,164)	(61,943)	(67,682)
Profit for the period	US$ 142,390	US$ 136,934	US$ 140,189

(in thousands of U.S. dollars)	As of December 31, 2013	2014	2015
Property, plant and equipment, net	US$ 2,213,837	US$ 2,377,739	US$ 2,595,840
Total assets	3,241,908	3,380,218	3,507,082
Current liabilities	193,089	367,550	543,341
Total non-current liabilities	732,407	763,380	783,877
Total liabilities	925,496	1,130,930	1,327,218
Total stockholders' equity	2,316,412	2,249,288	2,179,864

Ratios	Year ended December 31, 2013	2014	2015
Current assets/current liabilities	2.6x	0.9x	0.4x
Total liabilities/total assets	29%	33%	38%
Total liabilities/stockholders' equity	40%	50%	61%
Accounts receivable turnover ratio	38 days	29 days	32 days

Closing Prices and Average Trading Volumes for Our Shares

Date	Closing Price (Ps. per Share)	Average Trading Volume
2013	52.17	1,886,829
2014	73.80	1,034,837
2015	72.34	1,137,929
2016 (through March 31)	70.63	1,066,654

*Source: IEnova, based on Bloomberg data.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our 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 our 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 we currently believe may materially adversely affect us. Additional risks and factors not currently known to us, or those that we currently deem to be immaterial, may also materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. In this section, when we state that a risk or uncertainty may, could or will have a "material adverse effect" on us or could or will "materially adversely affect" us, we mean that the risk or uncertainty could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Risks Relating to Our Business and Our Industry

We operate in a highly regulated environment, and our profitability depends on our ability to comply with a number of laws and regulations on a timely and efficient basis.

We operate 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 our activities. In some cases, the prices that we charge for our products and services are limited by regulated rates set by governmental authorities. These regulations and permits may limit our operating flexibility, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 we required for the operation of our Rosarito pipelines system, we were required to agree to divest ourselves of the Mexicali components of our Ecogas natural gas distribution system. We have been subject to this obligation since 2000 and have made good faith efforts to comply with the obligation to divest ourselves of our Mexicali gas distribution system, but have not yet located a purchaser for these assets. We have notified the Mexican Antitrust Commission of our 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 we charge our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. In addition, in order to undertake new energy infrastructure projects in Mexico we 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 our inability to obtain such permits.

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

We are 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.

Our 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 we obtain and maintain health and safety licenses for construction and operation of all facilities, including our facilities related to the transportation, storage and distribution of natural gas, LPG and ethane, and the generation of energy. These laws, regulations and official standards may also require us to obtain and maintain the following with respect to the construction and operation of our facilities: environmental impact authorizations; risk studies; accident prevention program authorizations; forestry land use change authorizations; air emissions operation licenses; local land use 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 our operations. See "Business – Legal, Administrative and Arbitration Proceedings." The failure to obtain and maintain these authorizations, licenses, permits and concessions could materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 us for our 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 we may be held liable in the future, could require us 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 our on-going projects and/or facilities for the transportation, storage and distribution of natural gas and other hydrocarbons and for the generation of energy. Private parties may also have the right to pursue legal actions to enforce compliance and to seek damages for personal injury, property damage or for non-compliance with respect to environmental laws. The failure to comply with these authorizations, permits, concessions, regulations and license terms and conditions could materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Mexico is also a party to many international agreements regarding environmental protection. We anticipate that the regulation of our 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 senate, become a part of Mexican law. Under the North American Agreement on Environmental Cooperation, or NAAEC, a side agreement to the North American Free Trade Agreement, or NAFTA, each country that is a party to NAFTA 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. While it is difficult to predict the scope and effect of new environmental laws and regulations, such changes could materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The Mexican 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 us to significant liability in the event of any such damage. However, the Mexican Environmental Liability Law has not yet been the subject of judicial interpretation or extensive enforcement and, accordingly, we cannot predict the outcome of any action brought against us or the extent to which we 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We cannot predict the potential effects on our 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 hydrocarbons 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 our pipelines and natural gas distribution businesses is set forth in the new Mexican Hydrocarbons Law (*Ley de Hidrocarburos*), the Regulations Under the Hydrocarbons Law (*Reglamento de la Ley de Hidrocarburos*) and the Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law (*Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos*). Our power generation business is subject to regulation under the newly enacted Mexican Law for the Electricity Industry (*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 Law for Power Utilities (*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, the new legal framework has not yet been the subject of judicial or administrative interpretation and it is uncertain how it would be interpreted in practice. We also cannot predict the manner in which the new legal framework would affect any new business opportunities we may wish to pursue. See "Regulation, Permits and Environmental Matters." For example, during the period from the publication of the constitutional amendments relating to the Mexican energy sector on December 20, 2013, to December 31, 2015, 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, a 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 us to obtain the amendment of our existing permits or secure additional permits to operate our natural gas, LNG, LPG, ethane or power generation facilities or render our services, take additional actions to secure the requisite rights-of-way for our projects, perform social impact assessments or, upon consultation with the competent authorities, obtain the consent of indigenous communities for the development of our projects. We cannot assure you that we would be able to satisfy any new requirement affecting our existing permits or rights-of-way, or to secure any additional permit, approval or right-of-way required under the new legal framework. If we fail to satisfy any such requirement or if we cannot obtain any such permit, approval or right-of-way in a timely fashion, we may be unable to operate or may experience delays in the development, construction and operation of our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

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 "Regulation, Permits and Environmental Matters."

We cannot predict the potential effect on our business of any future legal, regulatory or social action taken in response to climate changes.

Alike many other countries, Mexico has adopted a number of legal and regulatory measures and social initiatives aimed at reducing greenhouse and other gas emissions. The newly enacted Mexican Law on Climate Change *(Ley General de Cambio Climático*) and the Mexican Law for the Electricity Industry are expected to be the

subjects of implementing legislation that is expected to include the establishment of an internal system for the reduction of these emissions, the introduction of negotiable permits and the adoption of other measures intended to achieve certain emissions reduction goals, which could force us to incur additional costs and, accordingly, could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

At the 21st Conference of Parties to the United Nations Framework Convention on Climate Change, or COP21, which was held in late 2015, 150 countries submitted their Intended Nationally Determined Contributions, or INDCs. Mexico's participation in COP21 was noteworthy in that it was the first country to implement its INDC. The principal agreements reached during COP21 include: (i) coming together every five years to set more ambitious targets, (ii) providing enhanced support for adaptation to developing countries, (iii) establishing long-term goals towards the objective of zero net emissions, (iv) providing for increased transparency to ensure the achievement of such objective, and (v) providing financial aid to developing countries for implementing new procedures to minimize climate change.

In order to comply with these agreements, Mexican regulatory authorities will seek to ensure that we conduct our businesses in strict compliance with the Mexican Law on Climate Change, 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, we will be required to assume and take into increased consideration the climate-related challenges posed by our operations, which could force us to incur in additional costs and could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We may be exposed to high costs to acquire LNG in order to maintain the operations of our LNG terminal.

In order for our 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 our customers maintain a sufficient amount of LNG in our terminal. However, other than our subsidiary customer IEnova LNG, which has agreed to use reasonable efforts to procure LNG for our terminal at our request, none of our customers has an obligation to deliver cargoes or maintain a minimum LNG inventory, and we cannot assure you that our customers will do so. Of the terminal’s capacity holders, only IEnova LNG has delivered LNG cargoes to the terminal. Based on the market price of LNG relative to the price of natural gas in the natural gas markets typically served using regasified LNG from our LNG terminal, we do not anticipate that our third-party customers, Shell Mexico, or Shell, and Gazprom Mexico, or Gazprom, will deliver LNG to the terminal in the near future, and we do not anticipate that in the near future our subsidiary IEnova LNG will deliver more than the minimum quantities required to keep the terminal cold.

In the event that our LNG terminal customers were not maintaining the necessary minimum volume of LNG in our terminal, we 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 we could resell the regasified LNG, we 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, we may need more LNG to keep the terminal cold than we are currently estimating. The costs of securing cargoes in the open market could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We are assessing the possibility of adding liquefaction capabilities to our LNG terminal, but our efforts to such end may prove unsuccessful. In addition, the successful addition of such capabilities could force us to terminate our existing agreements with our regasification customers, which could give rise to indemnification obligations to such customers.

We are assessing the possibility of adding liquefaction capabilities to our LNG terminal. In the first quarter of 2015, we, Sempra Energy and a Pemex affiliate entered into several cooperation and coordination agreements for the development of natural gas liquefaction facilities at our LNG terminal. Our LNG terminal is the subject of

certain disputes challenging the issuance of the construction and operation permits and authorizations for our LNG terminal, or LNG terminal permits, which may hinder our 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, we cannot assure you that we would not face significant challenges in securing the requisite construction permits or building the relevant facilities, and any such challenge could hinder our 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. Our 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 our investment in the construction of the requisite facilities would be more profitable than the continuing provision of regasification services, only, under our existing agreements. Pursuant to our existing agreements, we are required to provide storage and regasification services to our customers through 2028 (or later, if customers exercise their renewal rights under such agreements). We may opt for offering both regasification and liquefaction, or only liquefaction services to our customers, or for continuing to provide regasification services only. If we are unable to continue to offer regasification services to our existing customers, or if the construction of the liquefaction facilities renders us unable to provide such services on a timely fashion, we may be held liable for indemnification to such customers under our existing agreements, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We have relied and may continue to rely on certain affiliates for services and financing and there can be no assurance that we will in the future be able to obtain such services or financing from our affiliates or from alternate third parties.

We rely on certain of our affiliates to provide various technical, administrative and management services, and expect to continue to do so in the future. We depend to a certain extent on these affiliates for the successful operation and development of our energy infrastructure projects. We have agreements in place pursuant to which these services are being rendered, as more fully described in "Certain Relationships and Related Party Transactions." However, there is no obligation on the part of these affiliates to provide these services upon the expiration of the existing agreements. While we intend to continue to rely on affiliates for these services, we 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 our ability to satisfy our contractual obligations, or to grow our business, and have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

As of December 31, 2015 we had outstanding borrowings from affiliates in the amount of approximately US$378.1 million. If our affiliates do not provide us with debt financing in the future, we may be unable to secure alternative sources of funding, which would have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. While we believe that the rates and terms of the borrowings we have received in the past from our affiliates are comparable to those we would have obtained from unrelated third parties in arm's-length transactions, we can provide no assurance that we would have been able to obtain such borrowings from unrelated third parties at rates and on terms that were as favorable to us as those we have received from our affiliates. We 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 our ability to satisfy our contractual obligations or to grow our business, and could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. See "Summary – Recent Developments."

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

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

Several parties have initiated actions with the Mexican Mexican Ministry of the Environment or the Mexican Environmental Protection Enforcement Agency, challenging the environmental impact authorization for our 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) our 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 our terminal's operations. If our environmental authorization or one or more of the LNG terminal permits were to be nullified, it could result in our terminal being unable to continue operations, which also could result in breaches of one or more permits or contracts to which we are a party. Any modification or nullification of our environmental authorization or one or more of the LNG terminal permits could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

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

In addition, a Mexican environmental non-governmental organization has filed an administrative appeal challenging the Mexican Ministry of the Environment' issuance of the environmental impact authorization for the construction and operation of our Energía Sierra Juárez wind power generation project. If this claimant prevails, that environmental authorization could be modified or annulled, which could materially adversely affect the timing or development of that project and have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We have spent, and continue 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 we may become involved in other litigation and administrative proceedings relating to claims arising out of our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. For additional information regarding the legal and administrative proceedings to which we are a party, see "Business – Legal, Administrative and Arbitration Proceedings."

Various governmental entities may prematurely terminate our permits under various circumstances, some of which are beyond our control.

Our permits granted by the Mexican Energy Regulatory Commission (including our LNG storage permit, transportation permits, distribution permits, and power generation permits) are essential for the operation of our

assets, and we 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 we engage in discriminatory practices or charge rates in excess of the maximum rates established by the Mexican Energy Regulatory Commission, (2) if we assign, transfer or create a lien on the permit in violation of its terms or the applicable law, or (3) if we fail to take action to utilize the permit within the term provided therein. In addition, our permits may be revoked in certain circumstances, including if we do not comply with our obligations under Mexican official standards or conditions under the permits, or if we experience 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 Law for the Electricity Industry and the Mexican Hydrocarbons Law provide for similar revocation events that would apply to any new permit we obtain for purposes of our 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, or (4) failing to exercise our rights under the relevant permit within certain period of time.

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

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

Our facilities, including our 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 our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 we receive may be insufficient to cover our losses or liabilities, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Our acquisition of the remaining 50% ownership interest in Gasoductos de Chihuahua exposes us to material risks.

Our acquisition of the remaining 50% ownership interest in Gasoductos de Chihuahua, from Pemex TRI, exposes us to material risks. Our expectations regarding the results of Gasoductos de Chihuahua's existing projects and projects under construction are based on assumptions and estimates that take into consideration our prior experience in the development of joint venture projects with Pemex TRI. The ability of these projects to achieve their expected results is subject to the risks inherent to the development and construction of energy projects generally, including, without limitation, the impairment of equipment at a faster rate than expected, as well as system failures and interruptions. Our future acquisitions may fail to perform as expected, and the revenues generated by such acquisitions may prove insufficient to repay any debt incurred to consummate or maintain such acquisitions. Furthermore, the successful integration and consolidation of any acquisition requires significant human, financial and other resources, which may distract the attention of our management from our existing projects, give rise to disruptions in such projects or result in an acquisition not being adequately integrated. We may prove unsuccessful at integrating Gasoductos de Chihuahua's businesses with our own, or experience difficulties in

connection with the integration of their operations and systems (including IT, accounting, financial, control, risk management and safety systems). Our failure to achieve the expected results, synergies and/or economies of scale from the integration of Gasoductos de Chihuahua and its subsidiaries could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The volatility of oil and natural gas prices could have a material adverse effect on our financial condition.

The sharp decline in oil prices since late 2014, which has continued into 2016, 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 at Pemex's financial condition, including in view of its aggregate debt and the significant increase therein in recent years. Pemex is a customer of some of our projects, and if Pemex proves unable to satisfy its contractual obligations to us, this could have a material adverse effect on our financial condition.

Business development activities may not be successful and projects under construction may not commence operation as scheduled, which could materially increase our costs and materially impair our ability to recover our investments.

The acquisition, development, construction or expansion of our LNG terminal, natural gas and LPG pipelines, storage and distribution facilities, electricity generation facilities, and other energy infrastructure projects (such as our prospective liquefaction plant) involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal, and other expenses before we 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;
- 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 and maintenance of required governmental permits, licenses and approvals, and rights-of-way;
- negotiation with local communities and indigenous groups;
- timely implementation and satisfactory completion of construction; and
- obtaining financing at a reasonable and adequate cost.

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 our discussions with local and indigenous communities;
- construction delays and contractor performance shortfalls;
- work stoppages, strikes or boycotts;
- unavailability, delayed delivery and increased costs of equipment;
- adverse weather conditions;

- environmental and geological conditions;
- opposition or challenges by non-governmental environmental organizations;
- risks related to brownfield projects, such as hidden defects, inherited environmental liabilities and problems with rights-of-way; and
- unanticipated increases in costs associated with known or unknown adverse environmental conditions, including costs of compliance with environmental laws.

If we experience material delays or are unable or elect not to complete the development of a project or obtain the requisite permits, rights-of-way or easements for such project, including the San Isidro–Samalayuca pipeline, the Ojinaga–El Encino pipeline, the Sonora pipeline, the second phase of the Ramones I pipeline, the second phase of the Ramones Norte pipeline and our projected liquefaction plant, we may be unable to recover our investment in such project or have to make payments under performance obligations we have made, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We may not be successful in obtaining new energy infrastructure projects.

The market for new energy infrastructure projects in Mexico is highly competitive. We compete with Mexican and foreign companies for most of the new energy infrastructure projects in Mexico and some of our 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. We may also face increased competition for new energy infrastructure projects and to retain our key employees as a result of the recent amendment of the legal framework for the regulation of Mexico's energy sector. Among other things, such amendment may result in our joint venture with Pemex TRI being awarded fewer energy infrastructure projects. We may also decide to compete for energy infrastructure projects in new market segments in which we have no prior experience. For additional information, see “Regulation, Permits and Environmental Matters.” In addition, we may be unable to secure new 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, for the development of new energy infrastructure projects. Furthermore, the projections relating to the Mexican energy sector's growth, included in this report, may not ultimately prove correct. Our inability to obtain the award of new energy infrastructure projects could adversely affect our expected growth and could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Our business is capital-intensive and changes in capital requirements could materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Any expansion of our 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. We may not be able to accurately predict the timing or amount of capital investment and expenditures that would be required for our new projects.

To the extent that we do not have sufficient internal resources available to fund new projects, we 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, we may find it necessary to fund our operations and capital expenditures at a higher cost or on other terms that are unfavorable to us, or we may be unable to raise as much funding as we need to support business activities. This could cause us to reduce capital expenditures and could increase our cost of funding, both of which could reduce our short-term and long-term profitability, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

When we enter into fixed-price long-term contracts to provide services or commodities, we are exposed to inflation, interest rate, foreign exchange and counterparty credit risks.

We generally endeavor to secure long-term contracts with customers to optimize the use of our 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 which are not adjusted for inflation), including rising operational costs and commodity prices, fuel costs, costs of labor, materials and equipment, rising interest rates, which affect financing costs, and changes in the U.S. dollar to Mexican peso exchange rate. In addition, the counterparties to our long-term contracts could incur in default with their obligations thereunder and any such default could have a material adverse effect on us. While we frequently require that our counterparties provide us with bank or other types of guaranties, the financial support provided by the guarantors is not always sufficient to offset in full any losses we may suffer and exposes us to counterparty risks. Any of these factors may have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We depend on a limited number of customers with whom we have entered into long-term agreements.

We have entered into long-term capacity agreements with Shell, Gazprom and IEnova LNG, under which users pay capacity reservation and usage fees to receive, store and regasify their LNG at our LNG Terminal. We have also entered into long-term capacity agreements with a limited number of key customers, including Pemex TRI, the Mexican Federal Electricity Commission, Shell, Gazprom, InterGen and our subsidiary IEnova LNG, under which users pay capacity reservation and usage fees to receive, transport and deliver natural gas or LPG, as applicable, through our pipelines. In addition, under an electricity purchase agreement with our U.S. affiliate, Sempra Generation, that was in effect through December 31, 2011, Sempra Generation paid us a fee for the power generated by our Termoeléctrica de Mexicali power plant. After giving effect to the consolidation of the intercompany revenues received from IEnova LNG, during the years ended December 31, 2103, 2014 and 2015 our four largest customers together accounted for approximately 64%, 66% and 72%, respectively, of our total revenues. During the same periods, no other customer accounted for more than five percent of our total revenues. In each of 2013, 2014 and 2015, our largest customer accounted for approximately 25%, 28% and 29%, respectively, of our total revenues.

The obligations of Shell under its LNG storage services agreement with us are currently backed by a standby letter of credit from BNP Paribas in the amount of US$210.6 million (which decreases over the life of the contract), and its obligations under its transportation services agreement with us are currently backed by a standby letter of credit from Shell Finance (Netherlands) B.V. in the amount of US$95.6 million. The obligations of Gazprom under its LNG storage services agreement with us are currently backed by standby letters of credit from BNP Paribas and Barclays Bank plc in an aggregate amount of US$73.2 million. The obligations of IEnova LNG under its storage services agreement with us are currently backed by a financial guarantee from Sempra Energy, our indirect controlling shareholder, in the amount of US$282 million, and its obligations under its transportation services agreement with us are currently backed by a financial guarantees from Sempra Energy in the amount of US$171.5 million. However, there can be no assurance that the above amounts would be sufficient to compensate us for any damages we might suffer in the event of the relevant customer's failure to satisfy its contractual obligations to us.

Typically, these agreements are subject to (1) termination in the event of either party's default with its obligations thereunder, or its insolvency, (2) suspension or termination due to *force majeure,* and (3) limited remedies against either party's default with its obligations thereunder for other reasons, including limitations on the amount of any award for damages, which may amount could be significantly less than the amount necessary to recover in full any costs incurred as a result of such default. However, each of the Mexican Ministry for Public Administration Matters (*Secretaría de la Función Pública*) and the Mexican Federal Electricity Commission may also terminate the agreement if it determines that doing so would be in the general public interest 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.

The failure or inability of one or more of our counterparties to satisfy when due its obligations to us under the agreements described above, or the termination of any such agreement, could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. Furthermore, there can be no assurance that, in the event of termination of any of these agreements, we 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 our inability to do so could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The operation of our facilities involves many operating risks, availability risks, technology risks and other risks beyond our control.

The operation of our LNG terminal, pipelines, distribution systems, storage facilities 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.

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

We depend on key suppliers, including an affiliate of our indirect controlling shareholder, for the adequate operation of our energy infrastructure assets.

Our businesses depend on key suppliers performing in accordance with their agreements. In particular, our LNG business has been relying upon Sempra Natural Gas (a business operating division of Sempra Energy that includes our 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 our LNG terminal sufficiently cold to remain in continuous operations and as a source of natural gas to sell to customers. Since our LNG terminal commenced operations, we have not been able to obtain sufficient quantities of LNG from Sempra Natural Gas to satisfy all of IEnova LNG'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 LNG to cover fixed LNG terminal and pipeline capacity costs to the extent its reserved capacity is underutilized because it provides IEnova LNG less than the full amount of LNG each year. This payment obligation has mitigated the losses that IEnova LNG would otherwise have experienced in recent years. With respect to our Ecogas natural gas distribution business, we rely principally on Pemex TRI, British Petroleum and SoCalGas for the supply of natural gas that we distribute to our customers. If any of these key suppliers fail to perform, we could incur substantial expenses and, in some cases, be exposed to commodity price risk and volatility, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We are also exposed to the risk that our suppliers that owe us 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, we may be required to acquire alternative hedging arrangements or to honor underlying commitments by making purchases from other suppliers at then-current market prices. n such event, we may incur additional losses to the extent of amounts paid to such suppliers. Furthermore, any financial difficulties suffered by our suppliers could increase our costs or adversely impact the operation of our energy infrastructure.

The financial condition of any of our 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 our agreements with suppliers are considered customary in the markets in which we participate. However, a material change in the payment terms with our strategic suppliers could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We rely on transportation assets and services that we do not own or control to deliver natural gas.

Our facilities are interconnected with other facilities outside the areas we serve. Therefore, we often depend 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 we sell to our customers;
- supply natural gas to our electric generation facilities;
- provide retail energy services to customers; and
- supply us with natural gas and LPG for sale to our customers.

If transportation is disrupted, or if capacity is inadequate, our ability to sell and deliver our products and services may be hindered. As a result, we may be responsible for damages incurred by our customers, such as the additional cost of acquiring alternative natural gas or LPG supplies at then-current spot market rates, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

If the commodities shipped in our 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 we deliver to a pipeline or market fails to meet the applicable product quality specifications set forth in the Mexican Official Standards, we are 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 our through-put volumes or revenues, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We do not own all of the land on which our pipelines, facilities and ancillary infrastructure are located, so our operations could be disrupted by actions of the landowners. Furthermore, delays or the impossibility of obtaining the release of rights-of-way to the land, through which some of our energy projects currently under construction will be laid, may cause material cost increases and delays in the start of operations.

We do not own all of the land on which our pipelines, facilities and ancillary infrastructure, such as power transmission lines and aqueducts, have been constructed. We typically obtain the rights to construct and operate our pipelines and ancillary infrastructure on land owned by third parties and governmental agencies for a specific period of time. We are 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 we do not have valid rights-of-way or leases, or if such rights-of-way or leases lapse or terminate. Our loss of these rights, through our inability to renew right-of-way or lease contracts or otherwise, could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

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

We are exposed to market risks, including fluctuations in commodity prices, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We buy energy-related commodities from time to time in order to satisfy contractual obligations with customers. Our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities could be materially adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that we buy change in a direction or manner not anticipated and for which we had not provided adequately through purchase or sale commitments or other hedging transactions. In addition, while at present we are not directly exposed to market risks in connection with our Ecogas natural gas distribution business because the price we pay for natural gas is passed through to the Ecogas customers, natural gas prices relative to LPG prices affect our ability to sell natural gas and, accordingly, may have a material impact on our natural gas distribution business. On January 1, 2012, our Termoeléctrica de Mexicali power plant began selling electricity to the U.S. market on a merchant basis pursuant to an electricity management agreement with our affiliate, Sempra Generation. Under this arrangement we are no longer reimbursed for our purchases of natural gas to fuel our Termoeléctrica de Mexicali power plant as we were in prior years and may also need to purchase electricity in the open market to satisfy contractual obligations. This arrangement exposes us to significantly more commodity price risk than the previous agreement we had in place to sell electricity from the power plant directly to our affiliate Sempra Generation. Our 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 our annual costs of energy management services rose to approximately US$5.0 million in connection with Termoeléctrica de Mexicali. Furthermore, we currently purchase natural gas to supply our Termoeléctrica de Mexicali power plant directly from our subsidiary IEnova LNG. Because under a previous agreement with JPM Ventures Energy, JPM Ventures Energy sold natural gas to us at a price that was less than the rate we would otherwise have had to pay to have natural gas delivered to the facility, our costs have increased since the expiration of this agreement in September 2014. Furthermore, in 2015 the Mexican government imposed countervailing duties on rolled steel imports from China, Germany and France, and on steel pipe imports from the United States, India and Spain. These actions may have an adverse impact on the price of steel pipe, which accounts for a substantial portion of the materials used in our pipeline projects under construction. Our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities may be materially adversely affected by fluctuations in commodity market prices and/or import duties.

We cannot and do not attempt to fully hedge our assets or contract positions against changes in commodity prices and our hedging procedures may not work as planned.

To reduce financial exposure related to commodity price fluctuations, we may enter into contracts to hedge our 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, we may use forward contracts, physical purchase and sales contracts, futures, financial swaps and options. We do not hedge the entire exposure to market price volatility of our assets or our contract positions, and the hedging will vary over time. To the extent we have un-hedged positions, or if our hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. When hedging our purchase and sale commitments, we are 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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) sovereign government or international organization actions affecting the global supply of oil and gas, (8) prevailing energy and environmental laws and regulations, (9) natural disasters, wars, seizures and other catastrophic events, and (10) expropriations. While we perform credit analyses prior to extending credit, we are exposed to the risk we may not be able to collect amounts owed to us. Such changes in market prices or inability to collect amounts owed to us could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. For additional information regarding our 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 19 and 22 to our audited financial statements included elsewhere in this report.

The LPG price subsidy policy of the Mexican government could materially adversely affect our Ecogas natural gas distribution business.

Currently LPG prices, which are impacted by the market price of crude oil, are subsidized by the Mexican government. These LPG subsidies could put our Ecogas distribution system's unsubsidized natural gas product at a competitive disadvantage. If the LPG price subsidy policy of the Mexican government continues and we are not able to obtain competitively priced natural gas relative to the LPG that is available to our customers and potential customers through our competitors, the profitability of our natural gas distribution business could be materially adversely affected, which in turn could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Our risk management procedures may not prevent losses.

Although we have 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 us from significant losses. As a result of these and other factors, there is no assurance that our risk management procedures will prevent losses that could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We conduct a significant portion of our pipelines business through joint ventures over which we hold joint control.

Through our joint venture with Pemex TRI, we hold a non-controlling interest in a joint venture with BlackRock and First Reserve for the construction of the Los Ramones Norte pipeline, which began operations in February 2016. We have also entered into a joint venture with InterGen for the operation of our Energía Sierra Juárez wind power generation project, which began operations in June 2015. We share the control of these joint ventures with our partners and, accordingly, in the event of any disagreement between us and our partners we may be forced to sell our interest in the relevant joint venture, purchase our partners' interests therein or submit to dispute resolution proceedings. If any joint venture partner were unwilling to cooperate effectively with us in the management and operation of the joint venture, this could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The operation of our facilities depends on good labor relations with our employees.

At December 31, 2015, we had 639 employees. These included 82 administrative employees and 557 operation and maintenance workers, of whom 37 were covered by collective bargaining agreements with several labor unions. Our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. Our facilities have not experienced any labor disruption since we 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We depend on our executives and employees and their unique knowledge of the energy sector and our business segments, and we may not be able to replace key executives and employees if they leave.

The operations and continued growth of our 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 our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. We do not maintain key-man life insurance on our management team. In the event that we were to lose the services of any such personnel, this could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Our activities are concentrated in our energy infrastructure projects in the states of Baja California, Sinaloa, Sonora, Chiapas, Chihuahua, Coahuila, Durango, Nuevo León, Jalisco, Tamaulipas, San Luis Potosí, 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.

Our 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, Tabasco and Veracruz, and all our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. In addition, we are 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 we operate, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The insurance contracts we have may be inadequate.

We have insurance for our operations in Mexico, including our LNG terminal and related marine terminal, 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 we consider appropriate. However, we 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 our 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, we do 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 our facilities, or if there is extended business interruption, there can be no assurance that the proceeds from our 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 our insurers or their reinsurers will be solvent. This loss of revenue, increased expenses or additional costs could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We regularly work with volatile and hazardous materials that subject us to risks that may materially impact our operations.

Our business involves storing and transporting highly flammable and explosive materials, which are subject to extensive regulation. Even if we comply with requisite environmental, sanitary, security, transportation, risk management and safety requirements and standards, our 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 our business, this could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. See "– We are 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."

Our natural gas distribution business may face increased competition due to the expiration of its exclusivity period.

Our 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, we could face competition from other distributors of natural gas in all of our distribution zones as other distributors of natural gas are now legally permitted to build natural gas distribution systems within our distribution zones and compete with us for customers within our distribution zones. To the extent that other distributors of natural gas expand or construct distribution systems in our distribution zones, that expansion or market entry could create additional competition against the natural gas we provide to our customers, and if we are unable to successfully compete against any such competitors, this could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We may be subject to interruptions or failures in our information technology systems.

We rely on sophisticated information technology systems and infrastructure to support our 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 our operations by causing delay or cancellation of transactions and reporting of financial results, resulting in the unintentional disclosure of customer or our information, or cause damage to our reputation. Such failures could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities, and we cannot assure you that our business continuity plans will be completely effective during an information technology failure or interruption.

New business technologies present a risk for attacks on our information systems and the integrity of the power grid.

Certain components of our energy infrastructure are exposed to the risk of cyber-attacks. In addition to general information and cyber risks, such as malware, malicious intent by insiders, unauthorized use of customer data and inadvertent disclosure of sensitive information, the energy industry faces new cyber security risks associated with automated metering, confidential information storage systems and other electronic infrastructure components. While our information technology systems are and will continue to be exposed to the risk of viruses, malware, unauthorized access, cyber-attacks and physical attacks, as of the date of this report our network security has never been breached. The deployment of new technologies offers increased opportunities for launching attacks on information technology systems and, more importantly, on the integrity of the power grid. While addressing these risks is the subject of significant ongoing efforts across our businesses, no assurance can be given to the effect that a successful attack will not occur. Any attack on our information systems, the integrity of the power grid or any of our facilities, or the unauthorized use of confidential customer data, could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

In the ordinary course of our business we acquire sensitive information, including personal information of our customers and employees, information regarding the power usage levels of our customers, and other types of information. The theft or unlawful disclosure of sensitive information of others is subject to penalties and could give rise to claims and legal actions against us, which could damage our reputation. As in the case of recent attacks on U.S. companies, cyber-attacks may be intended to cause economic impact in the locations in which we operate Any cyber-attack against us could result in a generalized disruption of our operating and management systems, the destruction of critical information and software or the disclosure of confidential information about us or about our customers, employees and others, which could affect our business and threaten the integrity of the power grid.

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

Currently, industrial customers of our 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 our 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 our individual household customers could diminish, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Risks Relating to Mexico

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

Substantially all of our operations are conducted in Mexico and our potential for growth is centered in Mexico; our business is therefore significantly dependent upon the performance of the Mexican economy. As a result, our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities may be materially adversely affected by the general condition of the Mexican economy, over which we have no control. Mexico has experienced economic crises in the past, caused by internal and external factors, characterized by 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. Such conditions could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities. For information regarding recent trends in the Mexican peso–U.S. dollar exchange rate, see "Exchange Rates."

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. In 2013, 2014 and 2015, Mexico's GDP grew by 1.1%, 2.1% and 2.5%, respectively. However, if the Mexican economy experiences another recession, if inflation or interest rates increase significantly, if the credit rating of Mexico's sovereign debt is downgraded or if the Mexican economy is otherwise adversely impacted, this could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Changes in Mexican governmental policies could materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and government-owned companies could have a significant effect on Mexican private sector entities in general, and us in particular, as well as on market conditions, prices and returns on Mexican securities, including our shares. In the past, economic and other reforms have not been enacted because of strong congressional opposition to the president.

The Mexican government could implement significant changes in laws, policies and regulations, which could affect the economic and political situation in Mexico. The most recent presidential and congressional elections took place in July 2012, and Enrique Peña Nieto, a member of the Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI), was elected President of Mexico and took office on December 1, 2012, ending a 12-year period of control by National Action Party (*Partido Acción Nacional* or PAN) presidents. In addition, the Mexican president has a strong influence over new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

The PRI does not currently hold an absolute majority of the legislature, which could result in government gridlock and political uncertainty including, significantly for us, on the structural reforms required to modernize certain sectors of the Mexican economy, such as the energy sector. In June 2015, Mexico held congressional elections and the PRI obtained a majority or 29.18% of the seats in the lower chamber of the Mexican Congress, which does not constitute an absolute majority.

While the recent amendments to the Mexican Constitution have opened the exploitation and production of natural gas to investment by the private sector, our performance has historically been tied to the Mexican government's willingness (and that of Pemex and the Mexican Federal Electricity Commission) to enter into service contracts with private sector companies and invite such companies to participate in the development of energy infrastructure projects. Such willingness to invite private participation in the industry is generally dependent on the political climate in Mexico.

Mexico may enact unanticipated tax reforms

Mexican tax laws are the subject of frequent amendments and no assurance can be given that Mexico's current taxation regime will not change in a manner that may affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

On September 8, 2013, Mexican President Enrique Peña Nieto announced a proposed tax reform that included the adoption of a new Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*) and the repeal of the Mexican Business Flat Tax Law (*Ley del Impuesto Empresarial a Tasa Única*). A decree enacting such reform was published in the Mexican Official Gazette on December 11, 2013, and took effect on January 1, 2014. The principal effects of this tax reform on our consolidated financial statements included the following:

i) *Mexican federal income tax rate.* While the previous regime had provided for a decrease in the Mexican income tax rate to 28% in 2014 and thereafter, the new Mexican Income Tax Law set such rate at 30%. This resulted in an approximately US$15 million increase in our deferred income tax expense for 2013.

ii) *Consolidation of income tax liabilities.* The previous framework for income tax consolidation was replaced with a new regime under which income tax assets resulting from such consolidation are subject to recapture within three as opposed to five years. As a result of this change, in 2014 we were required to make an advanced payment of approximately US$81 million, which was reported under short-term income tax liabilities in our consolidated statement of financial position. In addition, because we may no longer offset our income tax assets and liabilities, the income tax receivables and liabilities of our subsidiaries as of December 31, 2013 are included in their consolidated statements of financial position under separate items.

iii) *Dividends.* Under the new Mexican Income Tax Law, effective January 1, 2014, dividends paid by Mexican companies to persons who are non-Mexican residents for tax purposes are generally subject to Mexican income tax withholding at a rate of 10%. However, dividends paid out earnings for which a company paid income taxes prior to January 1, 2014, are exempt from taxation under the new Mexican Income Tax Law.

No assurance can be given that our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities will not be materially and adversely affected by Mexico's political environment or by future developments.

On September 8, 2015, Mexican President Enrique Peña Nieto submitted to the lower chamber of the Mexican Congress a package of proposed tax reforms which, if enacted, would have the following effects as of January 1, 2016:

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).

Companies engaged in the generation of electricity from renewable sources or through efficient cogeneration systems would be allowed to establish a new, adjusted pre-taxed 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.

The introduction of class actions into the Mexican legal system could have an adverse effect on our operations.

In 2011 Mexico adopted a new legal system that allows for the commencement of class actions on matters relating to the consumption of goods and services and the environment. This could give rise to the commencement of class actions against us by our customers or other market participants. Because the relevant laws have not yet been the subject of extensive judicial interpretation or enforcement, we cannot predict the outcome of any class action brought against us under such laws, including the extent to which we may be found liable as a result and the effect thereof on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 us.

The Mexican peso–U.S. dollar exchange rate is important for us because of its effect on our 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 our operating margins and an appreciation of the peso will likely result in a decrease in our operating margins. This is because the aggregate amount of our net sales denominated in or linked to U.S. dollars exceeds the aggregate amount of our 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 our net sales are either denominated in, or linked to the value of, the U.S. dollar. However, a portion of our cost of goods sold, including labor costs and other selling, general and administrative expenses are invoiced in pesos and our Mexican taxes will also be paid in pesos, as may be debt obligations we incur in the future. Consequently, the real appreciation or depreciation of the peso relative to the U.S. dollar can have an effect on our operating margins and our income tax expense. Some of the revenues of our joint venture with Pemex TRI are derived from Mexican peso-denominated rates and, accordingly, any appreciation or depreciation in the value of the Mexican peso against the U.S. dollar may affect our financial results. Changes in the Mexican peso–U.S. dollar exchange rate could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

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 our financial condition or performance.

Over the past few years Mexico has experienced a significant increase in violence relating to illegal drug trafficking, particularly in northern Mexico near the U.S. border, and most of our 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 materially adversely affect us and our financial performance. In addition, violent crime may increase our insurance and security costs. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not increase or will decrease. An increase in violent crime could have material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Events and the perception of risk in other countries, especially the United States and 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 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. The recent crises in other regions, including Europe and China, could have similar effects. Any of these factors, if they were to occur again, would negatively affect the market value of our securities and make it more difficult for us to access capital markets and finance our operations in the future on acceptable terms, or at all, which could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not materially adversely affect our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

We 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 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. There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our securities.

Risks Relating to Our Shares and Other Securities Issued by Us

The market price of our shares and other securities issued by us may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our shares and other securities issued by us 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 our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- significant volatility in the market price and trading volume of securities of companies in our sector, which are not necessarily related to the operating performance of these companies;
- investors' perceptions of our prospects and the prospects of our sector;
- potential differences between our actual financial and operating results and those expected by investors;

- changes in earnings or variations in operating results;
- operating performance of companies comparable to us;
- actions by our 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 us or our 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 our businesses or our 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 assigned to Mexico or our customers;

Although we have no present intention to do so, in the future we 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 us or a negative market perception and potentially a material decrease in the market price of our shares. In addition, our 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 our shares.

We are a holding company and depend on the results of operations of our subsidiaries and joint ventures.

We are a holding company with no independent operations or substantial assets other than the capital stock of our operating companies and joint ventures. Accordingly, we depend on the results of operations of our subsidiary companies and joint ventures. Each of our subsidiaries and joint ventures is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries and joint ventures. In addition, under Mexican law, our 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 our subsidiaries or joint ventures could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or the market price of our 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 our 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. We cannot assure you that the liquidity of our 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 our 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 our shares.

In the future, we may issue additional shares in connection with acquisitions, investments or repayment of our debt or for other purposes. The number of such shares issued could constitute a material portion of our then outstanding share capital. We 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 our 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 our shares and may make it more difficult for you to sell shares at a time and price that you deem appropriate. Any such issuances, including the prospective issuances discussed in this report, could also result in a dilution of shareholders' economic and voting rights in us or a negative market perception and potentially in a lower market price of our shares.

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

If we decide 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 our operating flexibility and limiting our ability to make distributions to holders of our shares. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of our shares and may result in dilution to holders of our shares. Because our decision to issue securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings or financings, any of which could materially reduce the market price of our shares and dilute the value of our shares.

The interests of Sempra Energy, our indirect controlling shareholder, could conflict with yours.

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

- the composition of our board of directors and, consequently, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our 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 our assets; and
- the amount of debt financing that we incur.

Sempra Energy may direct us 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 our shares.

We 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 our shares.

We are part of a corporate group, and we enter into transactions with related parties and affiliates, which could result in conflicts of interest.

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

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

The amount available for cash dividends, if any, will be affected by many factors, including our 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, our subsidiaries and joint ventures, among other variables. Also, the amount of cash available for dividend payments may vary significantly from estimates. We can offer no assurance that we will be able to pay or maintain the payment of dividends. Our actual results may differ significantly from the assumptions made by our 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 our board of directors will recommend a dividend payment to our shareholders or, if recommended, that our shareholders will approve such a dividend payment. Sempra Energy, as our 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 us to our shareholders are subject to the approval of our shareholders. As long as our indirect controlling shareholder continues to own the majority of our shares, it will have the ability to determine whether dividends are paid and the amount of such dividends.

Our bylaws contain provisions designed to discourage transactions involving a change of control that could otherwise be beneficial to us.

Certain provisions in our bylaws could make it difficult for a third party to acquire a significant ownership percentage of our shares without creating an obligation to purchase all or part of our shares. These bylaw provisions could discourage certain types of transactions involving the acquisition of our shares. Also, these provisions could discourage transactions in which our 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 our 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. Our board of directors may consider certain factors set forth in our bylaws, as well as any prior approvals of governmental authorities required for such acquisition, including antitrust or other regulatory approvals. See "Description of our Capital Stock and Bylaws – Anti-Takeover Protections" and "Regulation, Permits and Environmental Matters."

Our 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, our bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to our property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between us 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 our business, financial condition, results of operations, cash flows and prospects. Our estimates and forward-looking statements are based primarily on our current expectations and estimates of future events and trends. Although we believe 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 us as of the date of this report.

Our 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 us by affiliates;
- the resolution of litigation and property disputes;
- the loss of significant suppliers or customers;
- our 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;
- our ability to successfully compete with our peers for the award of energy infrastructure projects;
- the availability of electric power, natural gas and LNG, 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;
- increased competition due to expected expansion of the natural gas sector in Mexico;
- reliance on transportation assets and services that we do not own or control to deliver natural gas;
- risks posed by working with volatile and hazardous materials;
- risks posed by attacks on our information systems and integrity of our energy grid;
- temporary or permanent disruption of operations at our existing pipelines and/or storage facilities due to acts of God, *force majeure* or other events outside of our control;
- government expropriation of assets and title and other property disputes;
- capital markets conditions, including the availability of credit and the liquidity of our investments;
- risks relating to our counterparties' inability or unwillingness to satisfy their contractual obligations to us;
- risks relating to the decisions and actions of our 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. Our 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 our future results and our 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

We have 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.

On February 14, 2013, we issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (US$408 million, based on the exchange rate of Ps.12.7364 to US$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 (US$306 million), and a series of floating-rate Notes in the principal amount of Ps.1.3 billion (US$102 million) that accrue interest at the TIIE rate plus 30 basis points. We used the net proceeds from the sale of the Notes, or approximately US$408 million, to repay approximately US$356 million in outstanding indebtedness with affiliates and to fund our expansion plans. On February 12, 2013, we entered into certain swap agreements to hedge our exposure to changes in interest rates and to our Mexican peso-denominated obligations under the Notes. These included a swap agreement pursuant to which we replaced the floating, Mexican-peso denominated interest rate on our five-year Notes due in 2018, with a fixed, U.S. dollar-denominated rate, and a swap agreement pursuant to which we replaced the fixed, Mexican peso-denominated interest rate on our 10-year Notes due in 2023, with a fixed, U.S. dollar-denominated rate. See "Liquidity and Capital Resources – Existing Indebtedness" and "Liquidity and Capital Resources – Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk Management."

As a result of the above, we are 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, we are not subject to any disclosure requirements imposed by other regulatory authorities or securities markets.

Since 2013, we have complied as and when due with all of our 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 OUR REGISTERED SECURITIES

As of the date of this report we have not made any change in the terms of the securities we have registered with the Mexican Securities Registry maintained by the Mexican Banking and Securities Commission.

USE OF PROCEEDS

Proceeds from the Sale of Notes. On February 14, 2013, we issued two series of Notes for sale in connection with a public offering. The proceeds to us from the sale of the Notes, net of offering expenses, were Ps.5.2 billion. We used the net proceeds from the sale of the Notes to repay approximately US$356 million in outstanding indebtedness with affiliates and to fund our expansion plans.

Proceeds from the Sale of Shares. On March 21, 2013, we conducted a global offering of our shares, which included an initial public offering of shares in Mexico and an international offering of shares to qualified buyers and other institutional investors. The net proceeds to us from the sale of shares in the global offering, including the overallotment options, were approximately Ps.7.1 billion.

In 2013, we used approximately 21% of such proceeds for general corporate purposes and approximately 37% (allocated to our gas and power segments on an 81%-19% basis, respectively) to fund our investment and expansion plans. The remaining 42% was held by us in cash or invested in cash equivalents, including short-term securities.

In 2014, we used approximately 32% of the remaining proceeds for general corporate purposes and approximately 68% (allocated to our gas and power segments on an 71%-29% basis, respectively) to fund our investment and expansion plans.

PUBLIC DOCUMENTS

We have complied as and when due with all of our 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 our reporting obligations under our agreements with our rating agencies. Such information is available for consultation by the public by contacting our 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 our website www.ienova.com.mx

THE ISSUER

a) Our History and Evolution

We were 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. We were organized for an original term of 99 years. On April 25, 2008, we adopted the form of a limited partnership (*sociedad de responsabilidad limitada*) under the Mexican Corporations Law (*Ley General de Sociedades Mercantiles*) and changed our name to Sempra Energy México, S. de R.L. de C.V. On December 3, 2008, we changed our name to Sempra México, S. de R.L. de C.V.

Effective February 20, 2013, we adopted the form of a limited liability, variable stock corporation (*sociedad anónima de capital variable*) based on a resolution adopted by our shareholders at an extraordinary shareholders' meeting held February 15, 2013. On March 1, 2013, based on a resolution adopted by our shareholders at an extraordinary shareholders' meeting, we changed our 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, our shareholders approved by unanimous consent, in lieu of a shareholders' meeting: (i) the registration of our shares with the Mexican National Securities Registry, (ii) our transformation into a publicly-traded, limited liability variable stock corporation (*sociedad anónima bursátil*), (iii) our change of name to Infraestructura Energética Nova, S.A.B. de C.V. and the amendment of Article One of our corporate bylaws, and (iv) a global offering of our shares.

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

Recent Developments

Long-term auction held by the Mexican Center for the Control of Electrical Energy. In March 2016, we announced our participation, through one of our affiliates and together with an affiliate of Sunedison México, S. de R.L. de C.V., in a public auction for the award of long-term contracts for the purchase and sale of capacity, energy and clean-energy certificates with the Mexican Center for the Control of Electrical Energy (*Centro Nacional de Control de Energía*) in a joint venture with a Sunedison Mexico, S. de R.L. de C.V. affiliate.

Public auction for the Ramal Empalme award of a natural gas transportation services agreement with the Mexican Federal Electricity Commission, for its Empalme power plant. In March 2016, we announced our participation, through one of our subsidiaries, for this public auction.

Proposed Sale of our Termoeléctrica de Mexicali power plant. In February 2016, our board of directors approved a plan involving the sale of our 625 MW, Termoeléctrica de Mexicali power plant, located in Mexicali, Baja California.

Other public auctions held by the Mexican Federal Electricity Commission. We participated in three public auctions for the award of natural gas transportation service agreements with the Mexican Federal Electricity Commission, for the La Laguna–Aguascalientes, Villa de Reyes–Aguascalientes–Guadalajara, and Tula–Villa de Reyes routes. While the Mexican Federal Electricity Commission determined that the technical proposals we submitted in connection with these auctions complied with the specified requirements, it rejected our economic proposals based on the argument that they did not comply with such requirements. This, notwithstanding that, based on the relevant assessment methodology, our economic proposal for the La Laguna–Aguascalientes pipeline segment was US$7.0 million lower than the winning bid. We believe that our bids were compliant with the requirements specified in the rules for these auctions and, accordingly, have commenced legal and administrative actions to challenge the relevant decisions.

Material Events

Revolving loan from Sempra Energy Holdings XI. In December 2015 we entered into a 12-month, US$219.6 million revolving loan agreement with our affiliate Sempra Energy Holdings XI. We used the proceeds from this loan to refinance certain indebtedness and for general corporate purposes.

Decision by the Mexican Tax and Administrative Court. In December 2015 the Mexican Tax and Administrative Court (*Tribunal Federal de Justicia Fiscal y Administrativa*) issued a final decision denying the appeals that had been filed by third parties who were challenging the issuance of the environmental authorization for the LNG terminal operated by our subsidiary Energía Costa Azul, S. de R.L. de C.V., or Energía Costa Azul.

Renewal of our market-making agreement with Credit Suisse México. In December 2015 we announced the renewal of our market-making agreement with Credit Suisse México.

Denial of our appeal against a decision of the Mexican Agrarian Court. In November 2015 the Sixth Collegiate Court for the Fifteenth Circuit denied the constitutional appeal (*juicio de amparo*) that had been filed by our subsidiary Energía Costa Azul against a decision issued by the Mexican Agrarian Court (*Tribunal Agrario*). The decision did not affect Energía Costa Azul's ownership rights.

Public auction for the award of a natural gas transportation services agreement with the Mexican Federal Electricity Commission, for the Tuxpan–Tula route. In October 2015 we announced our participation, through one of our subsidiaries, in a public auction for the award of a natural gas transportation services agreement with the Mexican Federal Electricity Commission, for the Tuxpan–Tula route.

Revolving loan from a bank syndicate In August 2015 we entered into a 12-month, US$400 million revolving loan agreement with a bank syndicate led by Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, or Banco Santander (México), which may be extended for an additional five-year period. We used the proceeds from this loan to repay in full certain indebtedness incurred in 2014 with Banco Santander (México) and Sumitomo Mitsui Banking Corporation, as well as to fund our working capital needs and for general corporate purposes. In December 2015 the principal amount available under this facility was increased to US$600 million.

Public auction for the award of a natural gas transportation services agreement with the Mexican Federal Electricity Commission, for the Samalayuca–Sásabe route. In August 2015 we announced our participation, through one of our subsidiaries, in a public auction for the award of a natural gas transportation services agreement with the Mexican Federal Electricity Commission, for the Samalayuca–Sásabe route.

Agreement for the acquisition by us of Pemex's interest in Gasoductos de Chihuahua. In July 2015 we and Pemex entered into an agreement pursuant to which we would purchase Pemex's 50% interest in Gasoductos de Chihuahua. In December 2015 the Mexican Antitrust Commission denied its approval for the consummation of this transaction in its proposed terms. We and Pemex are working on the design of a new structure for the transaction.

San Isidro–Samalayuca pipeline. In July 2015 we were awarded by the Mexican Federal Electricity Commission, through a public auction, a 25-year natural gas transportation services agreement for the San Isidro–Samalayuca pipeline in the State of Chihuahua. This agreement entails the construction of an approximately 23 km pipeline with a transportation capacity of 1,135 MMcfd, which will require an estimated investment of US$108 million. The system, which is schedule to begin commercial operation in the first quarter of 2017, will supply natural gas to the Norte III combined-cycle power plant and will interconnect with Gasoductos de Chihuahua's system, the Tarahumara pipeline and the Samalayuca–Sásabe pipeline.

Renewal of our market-making agreement with Credit Suisse México. In June 2015 we announced the renewal of our market-making agreement with Credit Suisse México.

Final decision on Inmuebles Vista Golf's challenge of the validity of the concession for our LNG terminal. In May 2015 a collegiate court denied the constitutional protection petition, or *amparo,* that had been filed by

Inmuebles Vista Golf, S.A. de C.V., or Inmuebles Vista Golf, against a decision of the Mexican Tax and Administrative Court that was favorable to us. As a result, the decision of the Mexican Tax and Administrative Court became final and binding.

Final decision on the dispute with the Municipality of Ensenada. In May 2015 the decision of the administrative court on this matter, which had been favorable to us, became final and binding given the expiration of the statute of limitations for challenging such decision.

Los Ramones Norte pipeline. In March 2015 an affiliate of Pemex announced that it had entered into an agreement with BlackRock and First Reserve for the acquisition by BlackRock and First Reserve of an aggregate interest of 45% in TAG Norte, the developer of the Los Ramones Norte pipeline, in which we also hold an interest through our joint venture with Pemex TRI.

Loan agreement with certain related parties. In March 2015 we obtained a nine-month loan in the aggregate principal amount of US$120 million from Inversiones Sempra Latin America (US$90 million) and Inversiones Sempra Limitada (US$30 million). The relevant agreement may be extended for an additional four-year period. We used the proceeds from this loan to fund our working capital needs and for general corporate purposes. In addition, in March 2015 we repaid a portion (US$95.0 million) of our existing indebtedness with Banco Santander (México) and a portion (US$26.1 million) of our existing indebtedness with Sumitomo Mitsui Banking Corporation.

Memorandum of understanding. In February 2015 we, Pemex and Sempra LNG executed a memorandum of understanding with respect to the development of a natural gas liquefaction project within our LNG terminal in Ensenada, Baja California.

Inclusion in the Sustainability Index of the Mexican Stock Exchange. In February 2015 and 2016, we were included in the Sustainability Index (*Índice de Precios y Cotizaciones Sustentable*) of the Mexican Stock Exchange. Companies listed on the Mexican Stock Exchange are eligible for inclusion in the Sustainability Index, which was launched in December 2011, based on their environmental, social and governance performance.

b) Business description

i) Main activity

We are the first publicly listed private sector company engaged in energy infrastructure in Mexico and one of the largest private sector energy companies in the country. Our footprint in Mexico ranges across several business lines encompassing the entire energy infrastructure value chain.

Our assets are divided between two business segments: (1) our gas segment, which includes our pipelines business, our LNG business, and our natural gas distribution business, and; and (2) our power segment, which includes a natural-gas-fired, combined-cycle power generation facility and a wind power generation project. The Company's assets generate revenues primarily under U.S. dollar-denominated contracts with creditworthy counterparts, which are long-term in nature.

We were one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990s as a result of changes to Mexican energy regulation in 1995. Specifically, these changes allowed private participation in natural gas pipelines, distribution and storage. During the last 20 years we have increased our presence as leaders in private investment in the Mexican energy sector (including through greenfield development, organic growth and acquisitions), investing approximately US$4.0 billion in Mexican energy infrastructure, both directly and through joint ventures.

In October 2012 we were awarded two additional U.S. dollar-denominated natural gas transportation service agreements by the Mexican Federal Electricity Commission. These agreements, which were executed in October and November 2012, entail the construction of an approximately 835 km pipeline otherwise known as the Sonora pipeline in the states of Sonora and Sinaloa. We have completed the construction of and have begun deriving revenues from the Sásabe–Puerto Libertad–Guaymas segment of the Sonora pipeline.

In December 2012 Gasoductos de Chihuahua entered into an agreement with Pemex TRI for the construction and operation of an approximately 224 km ethane pipeline with a design capacity of approximately 151.9 MMcfd (2.7 MMThd), to transport ethylene from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz to Braskem IDESA's ethylene and polyethylene polymerization facility in the State of Veracruz, or Ethilene XXI project. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

In July 2013 Gasoductos de Chihuahua entered into a 25-year, natural gas firm transportation services agreement with Pemex TRI. This agreement accounts for the full capacity of the Los Ramones I pipeline, which is comprised of approximately 116 km of 48-inch pipeline and two compression stations. We have completed the construction of this pipeline, which began commercial operation in December 2014. The two compression stations began operations in December 2015.

In October 2013 Pemex announced the construction of the Los Ramones II pipeline, which is comprised of two segments: Los Ramones Norte and Los Ramones Sur. The Los Ramones Norte pipeline, which is approximately 452 km in length, is a natural gas transportation system that includes two compression stations. Pursuant to the original agreement, which was executed in 2014, and to an amendment executed in March 2015, Gasoductos de Chihuahua agreed to develop the Los Ramones Norte pipeline through a joint venture with a Pemex affiliate, BlackRock and First Reserve, which we refer to as the TAG Norte joint venture, in which Gasoductos de Chihuahua holds a non-controlling interest. In addition, the TAG Norte joint venture entered into a 25-year, natural gas transportation services agreement with Pemex TRI, which has 100% of the Los Ramones Norte pipeline's design capacity contracted on a firm basis. The Los Ramones Norte pipeline began commercial operation in the first quarter of 2016.

In November 2014 we were awarded a natural gas transportation services agreement by the Mexican Federal Electricity Commission, pursuant to which we are developing an approximately 220 km natural gas pipeline with a capacity of approximately 1,356 MMcfd (14.1 MMThd), otherwise known as the Ojinaga–El Encino pipeline.

Our achievements as pioneers in private investment in Mexican energy infrastructure include the following:

- we were 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;
- we built the first natural gas pipeline in the state of Baja California, and we have 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);
- our natural gas pipelines in Baja California allowed the Mexican Federal Electricity Commission to convert its power generation facilities from fuel oil to natural gas; we are the primary supplier of natural gas to the Mexican Federal Electricity Commission in the State of Baja California;
- we are partners with Pemex TRI in Gasoductos de Chihuahua, the first natural-gas-infrastructure joint venture in Mexico;
- we built the first LNG terminal on the west coast of the Americas;
- through our joint venture with InterGen, we built and currently operate the first cross-border renewable energy project in Mexico, Energía Sierra Juárez;
- through our joint venture with Pemex TRI, we built and currently operate the first privately owned ethane pipeline system in Mexico;
- pursuant to two natural gas transportation service agreements entered into with the Mexican Federal Electricity Commission in October 2012, we are developing the Sonora pipeline system with an aggregate length of approximately 835 km, comprised of the Sásabe–Puerto Libertad–Guaymas segment with a capacity of 770 MMcfd (8.0 MMThd), the Guaymas–El Oro segment with a capacity of 510 MMcfd (5.3 MMThd), and two compression stations;

- through our joint venture with Pemex TRI, we developed the approximately 116 km, 48-inch diameter Los Ramones I pipeline with 2,100 MMcfd (21.8 MMThd) of capacity, which began operations in December 2014, while the two compression stations began operations in December 2015;

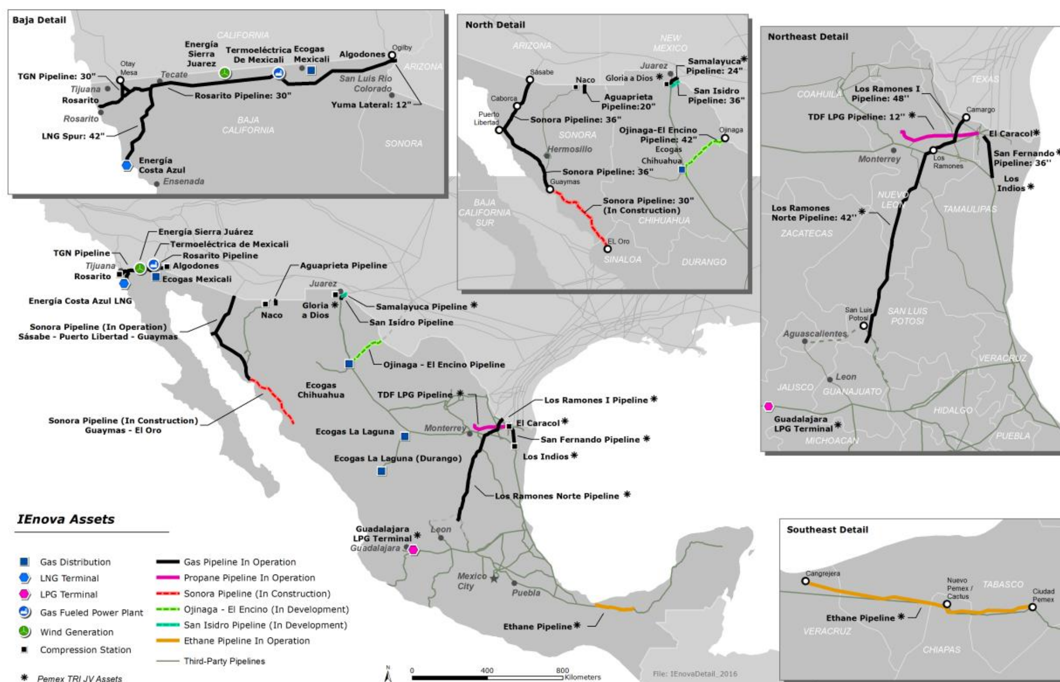
- through our TAG Norte joint venture, we developed and built the Los Ramones Norte pipeline system, comprised of approximately 452 km of 42-inch diameter pipeline with 1,420 MMcfd (14.8 MMThd) of capacity and two compression stations, which began operations in the first quarter of 2016;

- pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in December 2014, we are developing the approximately 220 km, 42-inch diameter Ojinaga–El Encino pipeline with a capacity of 1,356 MMcfd (14.1 MMThd); and

- pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015, we are developing the approximately 23 km San Isidro–Samalayuca pipeline with a capacity of 1,135 MMcfd (11.8 MMThd), which includes a compression station.

In addition to our ownership of assets across the energy infrastructure value chain, we have also improved our market position by entering into strategic partnerships. In 2010 we acquired various Mexican assets, including a 50% interest in our joint venture with Pemex TRI. The joint venture with Pemex TRI currently develops, owns and operates natural gas, LPG and ethane pipelines, compression stations and storage facilities. Additionally, we entered into a 50/50 joint venture with an affiliate of InterGen for the development of the initial phase of our wind power project, Energía Sierra Juárez. Through our joint venture with Pemex TRI, we also entered into a joint venture with a Pemex affiliate and a consortium comprised of BlackRock and First Reserve for the development of the Los Ramones Norte pipeline.

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



Gas Segment

Pipelines Business

We own and operate systems for receiving, transporting, compressing, storing and delivering natural gas, LPG and ethane throughout the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems, some of which are currently under construction and include those developed through our joint venture with Pemex TRI, encompass the following:

- more than 2,500 km of natural gas pipelines (of which approximately 1,025 km were under construction as of December 2015) with an aggregate design capacity of over 11,300 MMcfd (117.5 MMThd);
- eight natural gas compression stations in operation, and four compression stations currently under construction, with an aggregate of over 480,000 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 239 MMcfd (2.5 MMThd); and
- an LPG storage facility with a total capacity of 80,000 Bbl (4.4 MMTh).

- Our current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station, as well as the Sonora pipeline, Ojinaga–El Encino pipeline and San Isidro–Samalayuca pipeline that are currently under construction.
- Our pipeline assets also include the assets held by our joint venture with Pemex TRI, in which we hold a 50% interest. The joint venture with Pemex TRI owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Los Ramones I pipeline, Ethane pipeline, Gloria a Dios compression station and Guadalajara LPG terminal. In addition, through the TAG Norte joint venture, Gasoductos de Chihuahua owns the Los Ramones Norte pipeline, which began operations in February 2016.
- Most of our pipelines and compression stations have entered into long-term firm transportation and/or compression services agreements with major industry participants such as Shell, Gazprom, InterGen, TransCanada, the Mexican Federal Electricity Commission and Pemex TRI. The following is an overview of the existing assets of our pipelines business:
  - *Rosarito pipelines system*. This fully bi-directional system is comprised of three segments of approximately 302 km in aggregate length, as well as a 30,000 horsepower compression station. The system originates at a valve that interconnects it with the North Baja pipeline at the Mexico–U.S. border, extends west to the valve that interconnects it with the TGN pipeline near Tijuana, Baja California, and then turns south toward our LNG terminal. 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 segments comprising this system are 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). We have entered into 10 transportation service agreements with the customers of the Rosarito pipelines system, which account for 88% of the system's design capacity.
  - *TGN pipeline*. The TGN pipeline is fully bi-directional 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. The system interconnects with the Rosarito pipelines system near Tijuana, Baja California, extends north to interconnect at the Mexico–U.S. border with the pipeline system owned by our affiliate San Diego Gas & Electric Company, or SDG&E, and then southwest, ending at the Mexican Federal Electricity Commission's 1,300 MW Presidente Juárez power plant in Rosarito, Baja

California. The system's full design capacity is contracted under three firm transportation service agreements.

- *Aguaprieta pipeline.* The Aguaprieta pipeline is a 20-inch diameter pipeline with an approximate length of 13 km and a capacity of 200 MMcfd (2.1 MMThd). It transports natural gas from 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 Mexican Federal Electricity Commission. We have entered into four transportation service agreements with the customers of the Aguaprieta pipeline, which have contracted 61% of the system's design capacity on a firm basis.

- *Naco compression station.* The Naco compression station is a 14,340 horsepower natural gas compressor with a capacity of 90 MMcfd (0.9 MMThd) that is installed on Pemex TRI's Naco–Hermosillo natural gas pipeline system in Naco, Sonora. This station has in place a firm compression services agreement with Pemex TRI, its only customer, which accounts for 100% of the station's design capacity. This agreement was assigned by Pemex TRI to the Mexican Center for the Control of Natural Gas (*Centro Nacional de Control del Gas Natural*) effective January 1, 2016.

- *Sonora pipeline.* The Sonora pipeline is an 835 km natural gas transportation system located in the states of Sonora and Sinaloa, which is currently under construction. 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). We have completed the construction of the first, or Sásabe–Puerto Libertad–Guaymas segment. We have entered into two 25-year, U.S. dollar-denominated transportation service agreements with the Mexican Federal Electricity Commission, which has 100% of the system's design capacity contracted on a firm basis.

- *Ojinaga–El Encino pipeline*. The Ojinaga–El Encino pipeline is an approximately 220 km, 42-inch diameter pipeline with a transportation capacity of approximately 1,356 MMcfd (14.1 MMThd), located in the State of Chihuahua, which is currently under construction. The system will run from Ojinaga, near the Mexico-U.S. border, to El Encino. We have entered into a U.S. dollar-denominated transportation services agreement with the Mexican Federal Electricity Commission, which has 100% of the system's design capacity contracted on a firm basis. The Ojinaga–El Encino pipeline is scheduled to commence operations in the first half of 2017.

- *San Isidro–Samalayuca pipeline.* The San Isidro–Samalayuca pipeline is a system comprised of an approximately 23 km pipeline with a transportation capacity of 1,135 MMcfd (11.8 MMThd), a 46,000 horsepower compression station and a distribution manifold, that is currently under construction pursuant to a 25-year natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015, which has 100% of the system's capacity contracted on a firm basis. The San Isidro–Samalayuca pipeline, which is located in Ciudad Juárez, Chihuahua, is scheduled to commence operations in the first half of 2017.

Joint venture with Pemex TRI. We acquired a 50% interest in Gasoductos de Chihuahua, our joint venture with Pemex TRI, in April 2010. Pemex TRI is a wholly-owned subsidiary of Pemex and is in charge of Pemex's gas processing, transportation and marketing operations, among others. Our joint venture with Pemex TRI owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Los Ramones I pipeline, Ethane pipeline, Gloria a Dios compression station and Guadalajara LPG terminal. In addition, through the TAG Norte joint venture, Gasoductos de Chihuahua holds a 50% interest in the Los Ramones Norte pipeline, which began operations in February 2016. These assets are described in more detail below:

- *San Fernando pipeline*. The San Fernando pipeline is a fully bi-directional system comprised of a 36-inch diameter pipeline with an approximate length of 114 km and a capacity of 1,460 MMcfd (15.2 MMThd), and two compression stations with a total of 95,670 horsepower. The pipeline runs from our El Caracol compression station in Reynosa to our Los Indios compression station in San Fernando, in the State of Tamaulipas. 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.

- *Samalayuca pipeline.* The Samalayuca pipeline is a 24-inch diameter pipeline with an approximate length of 37 km with a capacity of 400 MMcfd (4.2 MMThd). The Samalayuca pipeline, which began operations in 1997, was the first privately-owned natural gas pipeline in Mexico. The Samalayuca pipeline runs from Ejido San Isidro, Chihuahua, to the Mexican Federal Electricity Commission's Samalayuca power plant and interconnects with a separate, 16-inch diameter pipeline owned by Pemex TRI that runs from Ciudad Juárez to Chihuahua. We have entered into four long-term transportation service agreements with the Samalayuca pipeline's customers, which have 50% of the system's design capacity contracted on a firm basis.

- *Gloria a Dios compression station*. The Gloria a Dios compression station is a 14,300 horsepower compressor with a capacity of 60 MMcfd (0.6 MMThd), installed at the interconnection point of the Samalayuca pipeline and Pemex TRI's Ciudad Juárez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. The Mexican Federal Electricity Commission, which is the station's sole customer, has contracted 100% of the station's capacity on a firm basis through 2021, at the rates established by the Mexican Energy Regulatory Commission, 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*. The TDF LPG pipeline is a system comprised of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Bbld (1.9 MMThd) 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 Bbl (2.2 MMTh). The TDF LPG 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 Monterrey, Nuevo León. The TDF LPG pipeline has in place a firm transportation services agreement with Pemex TRI, which expires in 2027.

- *Guadalajara LPG terminal*. In 2013 we completed the construction of an LPG storage facility with a capacity of 80,000 Bbl (4.3 MMThd) near Guadalajara, Jalisco. This facility consists of four storage spheres, each with a capacity of approximately 20,000 Bbl (1.1 MMTh), ten loading bays and an interconnection with a separate LPG pipeline system that is owned by Pemex TRI. We have entered into several 15-year storage service agreements with Pemex TRI, pursuant to which it has contracted 100% of the terminal's capacity through 2028.

- *Los Ramones I pipeline*. The Los Ramones I pipeline is a fully bi-directional system comprised of a 48-inch diameter pipeline with an approximate length of 116 km and two compression stations with a total of 123,000 horsepower. 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 Norte pipeline and Mexico's national pipeline system in Los Ramones, Nuevo León. Pemex TRI will be the sole customer of this facility under a 25-year firm transportation services agreement.

- *Ethane pipeline*. The Ethane pipeline is an approximately 224 km system comprised of a 20-inch diameter segment with a transportation capacity of approximately 33 MMcfd (0.6 MMThd), a 16/24-inch diameter segment with a transportation capacity of approximately 100 MMcfd (1.8 MMThd), and a 20-inch diameter segment with a transportation capacity of approximately 106 MMcfd (1.9 MMThd), and is the first of its kind to be developed in Mexico. The Ethane pipeline transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz, to the ethylene and polyethilene polimerization plant located within Braskem IDESA's Ethilene XXI project in the State of

Veracruz. Pemex TRI, which will be the sole customer of this facility, has contracted 100% of its capacity for a period of twenty-and-a-half years under a purchase agreement on a take-or-pay basis.

- *Los Ramones Norte pipeline*. The Los Ramones Norte system is comprised of an approximately 452 km pipeline with a capacity of 1,420 MMcfd (14.8 MMThd), and two compression stations with an aggregate of 123,000 horsepower, that 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. It is equipped with two 123,000 horsepower compressors. The Los Ramones Norte pipeline, which began operations in February 2016, was developed by Ductos Energéticos del Norte, S. de R.L., or DEN, in which IEnova Gasoductos Holding, through Gasoductos de Chihuahua, and Pemex TRI, each hold a 50% interest.

- *LNG Business*

  - Our LNG terminal, located near Ensenada, Baja California, began operations in 2008 and was the first LNG receiving facility on the west coast of the Americas. The LNG terminal provides receipt and storage facilities for our customers' LNG, regasifies this LNG and delivers the resulting natural gas to our Rosarito pipelines system, which has delivery capabilities in the State of Baja California and the United States. Our LNG business also purchases LNG for its own account, for storage and regasification at the LNG terminal, and sells natural gas to related parties and third-party customers. The LNG terminal has a storage capacity of approximately 320,000 m3 (73.3 MMTh) in two tanks, each of 160,000 m3 (36.6 MMTh), and 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).

  - Our LNG terminal's primary revenue stream is generated through its long-term firm storage services agreements with its third-party customers, Shell and Gazprom, as well as with our subsidiary IEnova LNG. Currently, 100% of the terminal's storage and send-out capacity is contracted on a firm basis through 2028 by Shell and Gazprom (50%), and by IEnova LNG (50%). IEnova LNG's obligations to the LNG terminal are guaranteed for up to US$282.0 million by our indirect controlling shareholder, Sempra Energy. Each customer must pay for its full contracted LNG storage capacity and natural gas send-out capacity regardless of whether it actually delivers LNG to the terminal. Our LNG terminal's LNG storage and natural gas send-out capacity is fully contracted through 2028 under firm storage services agreements with these customers.

  - IEnova LNG generates revenues by purchasing LNG for storage and regasification in our LNG terminal, and selling natural gas pursuant to natural gas supply contracts covering 100% of its LNG terminal natural gas send-out capacity. IEnova LNG also generates revenue streams by purchasing natural gas in the continental market and selling natural gas under supply contracts with the Mexican Federal Electricity Commission, which uses the natural gas at its Presidente Juárez power plant, and with our Termoeléctrica de Mexicali power plant and other customers. If Sempra Natural Gas does not deliver LNG to IEnova LNG pursuant to their long-term LNG supply contract for reasons other than an event of force majeure, it indemnifies IEnova LNG for the fixed costs associated with terminal and pipeline capacity.

- *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, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,658 km in length, this system currently serves over 113,000 industrial, commercial and residential customers.

  - This business generates revenues from service and distribution fees charged to its customers through monthly invoices. The purchase price we pay for natural gas is based on international price indexes and is passed through to our customers. However, we enter into hedging transactions with respect to these prices to reduce potential volatility in the price for natural gas that our 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 current structure of natural gas prices minimizes the market risk to which we are exposed, as the rates are adjusted regularly based on inflation and fluctuations in foreign exchange rates. The adjustments for inflation include cost components incurred both in Mexico and the U.S., so that U.S. costs can be included in the final rates.

- Residential customers make up 98% of the Company's distribution business (in terms of its number of accounts) and contribute 56% of its profit margin. Commercial and industrial customers together account for 2% of the distribution business (in terms of its number of accounts), but are responsible for 93% of the systems' throughput volume and 44% of its profit margin. We have entered into long-term supply agreements with some of our commercial and industrial customers, in which we may negotiate rates below the maximum regulated rate in exchange for long-term, minimum-purchase commitments.

- In 2013, 2014 and 2015, our gas segment had revenues of approximately US$508 million, US$598 million and US$526 million, respectively, which accounted for 75%, 73% and 78% of our total consolidated revenues, respectively, and an adjusted EBITDA of US$290 million, US$301 million and US$367 million, respectively, which accounted for 96%, 89% and 94% of our total adjusted EBITDA, respectively. Revenue figures do not include our share of profits of our joint venture with Pemex TRI, which we account for using the equity method, which in 2013, 2014 and 2015 was US$35 million, $25 million and US$41 million, respectively. However, the adjusted EBITDA for our gas segment includes our 50% share of the EBITDA from this joint venture.

Power Segment

- *Natural Gas Fired Power Generation Business*

  - We own and operate the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The plant, which commenced commercial operation in June 2003, receives natural gas through a connection with our Rosarito pipelines system, which allows it to receive regasified LNG from our LNG terminal as well as gas supplied from the United States through the North Baja pipeline system. In February 2013 Termoeléctrica de Mexicali, which is a modern and efficient facility that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California, received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency. The plant 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. Termoeléctrica de Mexicali generates revenues by selling electricity to consumers in the network operated by the California Independent System Operator, and our U.S. affiliate Sempra Generation acts as marketing and scheduling agent for these sales. 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, so that all or a portion of the plant's output could be delivered to the Mexican Federal Electricity Commission's La Rosita substation.

    In February 2016 our board of directors approved a plan involving the sale of our Termoeléctrica de Mexicali power plant. As a result, beginning in 2016 the results of Termoeléctrica de Mexicali will be included in our consolidated statements of profit under "Discontinued operations."

- *Wind Power Generation Business*

  - Through our joint venture with InterGen, we own the Energía Sierra Juárez wind generation project along the Sierra de Juárez mountain ridge in the State of Baja California, which is one of the richest regions in terms of wind resources on the west coast of North America. The Energía Sierra Juárez wind generation project interconnects via a new cross-border transmission line with the Southwest Power link at SAG&E's East County substation to the east of San Diego and could potentially also connect directly with the Mexican power grid. The initial phase of the project, which began operations in July 2015, is located 70 miles east of San Diego, just south of the Mexico –U.S. border, and produces approximately 155 MW

though 47 wind turbines. The entire output of the initial phase is purchased by our U.S. affiliate SDG&E pursuant to a 20-year electricity purchase agreement.

- In 2013, 2014 and 2015, our power segment had revenues of approximately US$143 million, US$222 million and US$168 million, respectively, which accounted for 21%, 27% and 25% of our total consolidated revenues, respectively, and an adjusted EBITDA of US$25 million, US$36 million and US$15 million, respectively, which accounted for 6%, 11% and 5% of our total adjusted EBITDA, respectively.

Since 1995 we have invested approximately US$4.0 billion in Mexican energy infrastructure across our business segments, and we continue pursuing various growth opportunities both on our own and through our joint ventures, such as our Sonora pipeline, our Ojinaga–El Encino pipeline and our San Isidro–Samalayuca pipeline, all of which are currently under development.

Seasonality

The demand for the products and services of both our gas and power segments is affected by seasonal factors. For our gas segment, the demand for natural gas distribution services increases during the winter as compared with the summer. Conversely, in our power segment the demand for electricity is greater during the summer.

Risks Relating to, and Effects of, Climate Changes

See "Risk Factors."

ii) Distribution Channels

See "Natural Gas Distribution Business."

iii) Patents, licenses, trade - marks and other contracts

Intellectual Property

We and our subsidiaries own the registration rights to various trademarks in Mexico, including "IEnova," "Ecogas" and "Energía para México". All such registrations are in full force and effect and we plan to apply for their renewal in accordance with Mexican law before they expire. Generally, our intellectual property rights are subject to renewal every 10 years and can be renewed any number of times, so long as we continue to use the relevant trademark. To the best of our knowledge, as of the date of this report there is no legal action pending in connection with any of our intellectual property rights. If we were to determine that any of the intellectual property rights owned by our subsidiaries is material to the conduction of any of our businesses, we would enter into a license agreement in respect of such rights with the relevant subsidiary. We do not own any patent.

iv) Principal Customers

LNG terminal customers and contracts

Our LNG terminal generates revenues by entering into long-term storage services agreements with third-party customers such as Shell and Gazprom, and with related parties such as our subsidiary IEnova LNG. Each of our 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. Our customers also pay us variable usage charges and fuel in-kind charges based on their actual use of the LNG terminal and the nitrogen facility. Our customers maintain ownership of the LNG they store at our LNG terminal and the natural gas that we deliver to our Rosarito pipelines system on their behalf.

Our LNG terminal's LNG storage and natural gas send-out capacity is fully contracted through 2028 under firm storage services agreements with these customers. The obligations of Shell are currently backed by a standby

letter of credit from BNP Paribas in the amount of US$132.2 million, the obligations of Gazprom are currently backed by standby letters of credit from BNP Paribas and Barclays Bank plc in an aggregate amount of US$85.3 million, and the obligations of IEnova LNG are currently backed by a financial guarantee from Sempra Energy, our indirect controlling shareholder, in the amount of US$282 million. The amount of credit support required for Shell decreases over the life of the contract. Our customers have also contracted for 100% of the firm nitrogen facility capacity of 12 MMcfd.

Our firm storage services agreements with the customers of our LNG terminal, which are all substantially similar, are governed by the LNG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento de Gas Natural Licuado*), or the LNG storage terms and conditions, which must be approved by and registered with the Mexican Energy Regulatory Commission, constitute an integral part of our LNG storage permit and may be amended from time to time by our LNG business. For a description of the legal framework for the regulation of our natural gas storage services, see "Regulation, Permits and Environmental Matters – Regulation of Our Natural Gas Business – Storage Terms and Conditions."

Currently, 100% of the terminal's storage and send-out capacity is contracted on a firm basis through 2028 by Shell and Gazprom (50%), and by IEnova LNG (50%). We believe that the size and creditworthiness of these global energy companies serve to enhance the security and predictability of our LNG terminal's future cash flows. Our existing customers can assign their LNG terminal capacity and/or nitrogen facility capacity to each other on a temporary basis, though the assigning customer remains liable for all payments, credit requirements and other obligations to us. Shell and Gazprom have also agreed to coordinate shipments, storage and gas send-out, and to share their contracted LNG storage capacity, since neither customer has contracted for sufficient storage capacity to unload a standard-sized LNG marine tanker. Shell and Gazprom continue to pay their own monthly LNG storage rate, but can reallocate their joint LNG storage and natural gas send-out capacity between them. If we expand our LNG terminal's capacity, we are required to conduct an open season process to allow any potential customer to contract for the additional capacity. Based on current market conditions, we do not anticipate any near-term expansions of the terminal's capacity.

In the event that we experience a *force majeure* event and are unable to provide a contracted and requested service as a result, our failure to perform will be excused. However, payments from customers are suspended during any *force majeure* event that we experience to the extent that service is made unavailable, and our customers can terminate their firm storage services agreements if we experience a *force majeure* event that materially affects their service and lasts for two consecutive years. If any of our customers experience a f*orce majeure* event they must continue to make monthly storage capacity payments.

We are required to pay a termination fee to any customer that terminates its firm storage services agreement for cause under the agreement. The termination fee is equal to two years of storage capacity payments or, if termination occurs after 2023, one year of storage capacity payments. Our agreement with Shell also provides that if we fail to pay the required termination fee, Shell will have the right to purchase our LNG terminal for an amount equal to its fair market value less the amount of the unpaid termination fee.

Purchase and Sale of Natural Gas and LNG

Through our subsidiary IEnova LNG we sell natural gas to third parties within Mexico and to our U.S. affiliate Sempra Natural Gas at the Mexico–U.S. border. Currently, we have contracts to sell a total of between 120 MMcfd (1.2 MMThd), and 300 MMcfd (3.1 MMThd) of natural gas to these customers, including the Mexican Federal Electricity Commission, for supply to its Presidente Juárez power plant in Rosarito, Baja California, and our Termoeléctrica de Mexicali power plant. Through IEnova LNG we have contracted to purchase LNG from Sempra Natural Gas and deliver it to our LNG terminal, where IEnova LNG has contracted firm capacity for storage and regasification. IEnova LNG also has firm capacity contracted to transport the resulting natural gas to its customers through our pipelines under long-term contracts. To the extent our supply of regasified LNG is insufficient to meet our obligations to the Mexican Federal Electricity Commission and to our Termoeléctrica de Mexicali power plant, we purchase cover gas from Sempra Natural Gas, which sells the gas to us at rates that make us economically indifferent as to whether we purchase cover gas or receive LNG from Sempra Natural Gas.

We deliver natural gas to the Mexican Federal Electricity Commission at the Presidente Juárez power plant in Rosarito, Baja California, pursuant to a long-term agreement which specifies firm amounts to be delivered for the duration of the contract, with additional variable amounts to be delivered as requested by the Mexican Federal Electricity Commission. In addition to payments for natural gas delivery, the Mexican Federal Electricity Commission also pays us a fixed monthly fee to cover transportation capacity obligations under a transportation agreement between IEnova LNG and our TGN pipeline. This natural gas supply agreement terminates in 2022. However, each of the Mexican Ministry for Public Administration Matters and the Mexican Federal Electricity Commission may also terminate the agreement if it determines that doing so would be in the general public interest 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.

LNG Purchase and Sale Agreement with Our U.S. Affiliate

As described above, we purchase LNG from our U.S. affiliate, Sempra Natural Gas. This affiliate has agreed to sell up to 8.2 million m^3 (1,880 MMTh) of LNG to us annually. If our U.S. affiliate delivers less than this amount for reasons other than a *force majeure* event, it is required to make payments to us to compensate us for our fixed capacity costs under IEnova LNG's agreements with our LNG terminal and our pipelines business. In January 2013 we terminated the prior agreement under which we 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 us for purchase each year for the express purpose of maintaining a sufficient volume of LNG in our 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 us 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. During the years ended December 31, 2012, 2013 and 2014, our U.S. affiliate paid us approximately US$107.8 million, US$90.8 million and US$90.9 million, respectively, as indemnification for the delivery of an amount of LNG lower than agreed. Had the new agreement been entered into as of January 1, 2012, our Adjusted EBITDA for 2012 would have declined by an immaterial amount.

In turn, our 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) which have agreed to sell up to 8.2 million m3 (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 our U.S. affiliate's agreement with the Tangguh partners increases the likelihood that our LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that we will be able to satisfy at least some portion of our natural gas customer commitments by selling natural gas that has been regasified at our LNG terminal. Our U.S. affiliate's agreement with the Tangguh partners expires in 2029, and we are 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 our marine terminal.

In 2013, 2014 and 2015, each of Sempra Generation, Sempra Natural Gas, the Mexican Federal Electricity Commission and Shell accounted for more than 10% of our total revenues.

REGULATION, PERMITS AND ENVIRONMENTAL MATTERS

v) Legal Framework and Taxation

As holders of LNG and LPG storage permits, natural gas and LPG transportation permits, natural gas distribution permits and electric power generation permits, our activities are governed by the Mexican Constitution together with a diverse body of laws, regulations, general provisions, guidelines and official technical standards.

In addition to our LNG and LPG storage, natural gas and LPG transportation, natural gas distribution and electric power generation businesses, a recent amendment to the Mexican Constitution and to the legal framework for the regulation of the Mexican energy sector allowed the Mexican government to engage private companies, such as us, in the exploration and extraction of hydrocarbons. The new legal framework also allows private companies to engage in petroleum processing, natural gas refining, hydrocarbons and liquid petroleum and petrochemical products transportation, storage, distribution, compression, liquefaction, decompression, regasification, marketing and retail sale, and electric power generation and sale in the wholesale market, and to enter into joint ventures with Mexican government-owned operating entities or into agreements with such entities for the purposes of financing, installing, maintaining, managing, operating and expanding Mexico's electric power transmission and distribution infrastructure.

We are subject to Mexican legislation governing the following principal midstream and downstream natural gas and LPG activities:

- **Storage:** Includes receiving, storing, regasifying (if applicable) and delivering natural gas, LNG or LPG with respect to facilities other than pipelines.

- **Transportation:** Includes building, operating and owning pipeline systems for receiving, transporting and delivering natural gas or LPG in routes authorized by the Mexican Energy Regulatory Commission.

- **Distribution:** Includes receiving, transporting and delivering natural gas via pipelines within defined geographical zones authorized by the Mexican Energy Regulatory Commission.

- **Marketing:** Includes buying and selling hydrocarbons, including natural gas and LPG, and acting as intermediary in the distribution of value added services to the end consumers

Activities in the midstream and downstream natural gas industry are subject to the provisions of the Mexican Hydrocarbons Law, the Mexican Law on the Agencies Responsible for the Regulation of the Energy Sector (*Ley de los Órganos Reguladores Coordinados en Materia Energética*), the Mexican Law on the Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector (*Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), the Regulations Under the Hydrocarbons Law and the Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law. Our activities are also regulated by the directives issued by the Mexican Energy Regulatory Commission, the Mexican Official Standards and the terms and conditions set forth in our permits. See "Risk Factors – Risks Relating to Our Business and Our Industry – We cannot predict the potential effects on our business of the new legal framework for regulating the energy sector in Mexico." Additionally, the Mexican Energy Regulatory Commission has yet to issue general administrative provisions to regulate issues such as open access, storage and own-use activities, among others.

Building and operating natural gas and LPG storage facilities, pipelines and distribution systems also require governmental permits and authorizations from federal, state and municipal authorities, including principally permits from the Mexican Energy Ministry and the Mexican Energy Regulatory Commission, which in some cases may require the favorable opinion of the Mexican Antitrust Commission, various environmental permits from the Mexican Ministry for the Protection of the Environment and the Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector, real estate rights-of-way, municipal land-use permits, municipal construction permits and other authorizations. These permits are granted in accordance with the Hydrocarbons Law and environmental, civil and urban development laws. In addition, permits granted by the Mexican Energy Regulatory Commission impose a series of regulatory obligations and specific terms and conditions commonly referred to as "terms and conditions." Except for LNG and LPG price subsidies, we are not currently eligible for any tax subsidies, benefits or exemptions.

Regulation of Our Natural Gas Business

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

In 1995, the Mexican Congress passed a bill allowing private participation (Mexican or foreign) in the transportation, storage, distribution and marketing of natural gas in Mexico. The Mexican Natural Gas Regulations were also published in 1995. In addition, in 2002 the Mexican Congress allowed private participation with respect to LNG regasification and recondensation terminals, and the Mexican Energy Ministry issued a Mexican Official Standard establishing minimum safety requirements for the development of these facilities.

In December 2013 the provisions of the Mexican Constitution with respect to hydrocarbons were the subject matter of an amendment, which was followed by the August 2014 adoption of implementing legislation to regulate the exploration, production, refining, processing, transportation, storage and marketing of petroleum and other hydrocarbons, allowing the Mexican government to award exploration and production contracts to private companies through a public auction process. These changes also allow private companies to apply for permits with respect to hydrocarbons processing, refining, marketing, transportation and storage, including permits for natural gas processing, compression, liquefaction, regasification, transportation, distribution and retail sale, permits for liquid petroleum products transportation, storage, distribution, marketing and sale, and permits for petrochemical products transportation through pipelines.

Mexican Hydrocarbons Law

The implementing legislation adopted in August 2014, which included the Hydrocarbons Law, preserved the principle that the ownership of untapped hydrocarbon resources lies with the Mexican government, but allowed private companies to engage in hydrocarbon-related activities subject to certain regulatory requirements.

Among other things, the Hydrocarbons Law allows private companies that have been issued the requisite permit from the Mexican Energy Regulatory Commission, to engage in the storage, transportation, distribution, marketing and retail sale of natural gas, and to own and operate pipelines and liquefaction, regasification, compression and decompression facilities and other related equipment in accordance with a series of technical and other standards. In addition, private companies that have been issued the requisite permit from the Mexican Energy Ministry may import or export hydrocarbons, including natural gas. The terms and conditions of the permits predating the enactment of the Hydrocarbon Law, such as ours, will remain in effect until their original expiration date and will not be affected by the new legislation. However, our operations may make it necessary for us to obtain new permits from the Mexican Energy Regulatory Commission, such as marketing permits, or from the Mexican Energy Ministry, such as import and export permits.

The Hydrocarbons Law provides for two types of natural gas transportation and storage permits: open access permits and own use permits. Open access permits may be granted to the owners of transportation or storage systems that operate in a similar fashion as public utilities. These entities must allow open access to their systems to any person who may request such access, within the limits of the relevant system's capacity and to the extent financially viable, or pursuant to an agreement to such effect, in each case in accordance with the general guidelines issued by the Mexican Energy Regulatory Commission. Holders of open access permits are strictly regulated and closely monitored by the Mexican Energy Regulatory Commission. Conversely, own use permits are issued solely and exclusively to end users or groups of end users organized under a special purpose vehicle, and to entities that do not operate as public utilities. All of our pipelines and our LNG Terminal are open access facilities. We also hold an own use permit in connection with the pipeline that supplies natural gas to our Termoeléctrica de Mexicali power plant. The operations of our pipelines and systems are governed by the terms of our permits and are subject to oversight by the Mexican Energy Regulatory Commission. The new legislation imposes certain other open access obligations, none of which has a material effect on the operations of our assets.

As opposed to marketing and distribution activities, the rates for the provision of natural gas transportation and storage services are regulated by the Mexican Energy Regulatory Commission. Holders of transportation and storage permits may offer discounts with respect to the maximum rates established by the Mexican Energy Regulatory Commission or enter into price arrangements within such rates. Such arrangements must be registered with the Mexican Energy Regulatory Commission for public disclosure purposes.

Marketers must offer transportation, distribution and storage services to other permit holders, either directly or through third parties. In addition, subject to certain exceptions, holders of open access transportation and storage permits are not allowed to sell the natural gas that was stored on site or transported through their systems.

The Hydrocarbons Law imposes restrictions on cross-participation with respect to marketing entities and holders of open access transportation and storage permits. However, the Mexican Energy Regulatory Commission, with the favorable opinion of the Mexican Antitrust Commission, may allow such cross-participation if doing so would not have an adverse effect on free competition, market efficiency or effective open access. These criteria may be met by establishing separate operations or creating corporate and legal mechanisms that ensure non-interference between the parties' operations and management. The new regulations may also (1) require a strict separation of the parties' activities from the legal, functional, operational and accounting standpoints, (2) limit the percentage of the capital stock of a company that can be held by another, (3) impose maximum limits on the participation of economic agents in the marketing services market, and (4) require the reservation of capacity in storage and pipeline systems. We anticipate that the new regulations will not affect our operations for so long as our permits remain in effect.

In the near future, the Mexican Energy Regulatory Commission is expected to issue generally applicable provisions regarding the transportation, storage, distribution, marketing and retail sale of hydrocarbons and liquid petroleum and petrochemicals products, taking into consideration the opinion of the Mexican Antitrust Commission, in order to foster the development of competitive markets in the hydrocarbons sector.

Storage Terms and Conditions

The LNG storage terms and conditions, and the LPG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento de Gas LP)*, or LPG terms and conditions, which are self-executing provisions that constitute an integral part of our LNG and LPG storage permits, govern service agreements for the receipt and storage of LNG and LPG and the delivery of natural gas. The LNG and LPG storage terms and conditions must be approved by and registered with the Mexican Energy Regulatory Commission.

Below is a summary of the terms and conditions set forth in our gas storage permits:

Services. We are required to provide storage services for our customers by receiving LNG or LPG at our storage facilities, providing storage (and, with respect to LNG, regasification) services and delivering the resulting product to our customers at any authorized point of delivery.

Access to available storage capacity. We are required to provide customers with reasonable access to the available storage capacity at our LNG terminal not yet under contract pursuant to a firm storage services agreement. Customers can access such capacity by executing a services agreement, provided that they have the necessary pipeline connection to our facilities at the points of delivery specified in such agreement. In addition, customers must provide a financial guarantee covering compliance with their obligations under their service agreements and the LNG or LPG storage 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 at the point of delivery at any time in accordance with the services agreement. Our firm storage services may not be subject to reductions or interruptions, with exceptions specified in the LNG or LPG storage terms and conditions and the relevant agreement.

Interruptible storage services. Interruptible storage services consist of storing LNG up to the maximum storage quantity specified in the relevant services agreement. Our 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 all of their storage services payment obligations, subject to an exception for customers that provide a satisfactory guarantee to cover the overdue payment, with our consent.

Creditworthiness. Customers must be solvent or provide evidence of creditworthiness within 30 days after our 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 storage terms and conditions.

Suspension, reduction or modification of storage services. If customers fail to comply with their obligations under their services agreements, we may suspend LNG and LPG storage services. Subject to a cure period, we may terminate the relevant services agreement. A services agreement will terminate automatically in the event of a customer's insolvency, and we will have the right to make a claim under any financial guarantee granted by such customer. If we suspend LNG or LPG storage services without a justified cause, we 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 storage terms and conditions.

Others. We are 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 storage terms and conditions. Failure to pay within a certain period of time provided in the LNG or the LPG storage terms and conditions may result in suspension of service.

Liability, warranty and assignment. We are 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 our 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 our rights and obligations to lenders for purposes of securing financing and to any entity that acquires the LNG or LPG terminals from us, with prior authorization of the Mexican Energy Regulatory Commission.

Our liability to customers is limited to damages suffered directly as a result of our failure to perform our 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 Mexican 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 notice of the occurrence of a *force majeure* event from the affected party (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 our LNG or LPG terminals, our 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. We may also suspend, restrict or modify deliveries of gas 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 LNG or LPG terminal facilities, customers must continue paying any amount owed by them at the time the f*orce majeure* event occurred.

Use of customers' gas for the operation of our LNG terminal. We require a certain amount of natural gas for the operation of our LNG terminal and provision of storage services, and are entitled to retain and use, at no cost or charge, our customers' available stored LNG for such purposes.

Dispute resolution. Any dispute 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 to another customer with prior notice to us. Any such transfer of contractual rights must be approved by us and is subject to the creditworthiness requirements.

Interconnection criteria. We are required to allow any entity to connect to our LNG or LPG terminals and related pipelines, subject to certain conditions with respect to available capacity and technical viability, provided that the party seeking the connection must bear all connection and other costs.

Transportation Terms and Conditions

The natural gas transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas Natural*) and the LPG transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas LP*), which are self-executing provisions that constitute an integral part of our natural gas and LPG transportation permits, govern service agreements for the transportation through pipelines of natural gas and LPG. The gas transportation terms and conditions must be approved by and registered with the Mexican Energy Regulatory Commission.

Although the terms and conditions for each of our gas 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 terms and conditions for each of our gas transportation permits and their related agreements:

Term. The gas transportation terms and conditions are valid during the effective term of the corresponding permit granted by the Mexican Energy Regulatory Commission.

Increase of capacity. In the event that requests for transportation services exceed our pipelines' available capacity, we must build additional facilities to increase our pipelines' available capacity to fulfill such requests if technically and economically viable.

Transportation services agreements. We may only render gas transportation services to customers that have executed a transportation services agreement based on forms prescribed by the transportation terms and conditions and after the customer fulfills all of the requirements provided in such terms and conditions. We enter into agreements after a full analysis of the requests for services received from potential customers.

Orders. During the term of a gas transportation services agreement, our customers prepare and deliver orders containing information with respect to the daily amount of gas 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 transportation terms and conditions, we are not obligated to provide transportation services to customers with outstanding balances with us or impaired creditworthiness. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee securing their obligations under their gas transportation services agreements.

Assignment. Gas pipeline capacity may be assigned with our prior written consent, provided that the assignee complies with the gas transportation terms and conditions, including providing a required guarantee.

Payment. If customers breach their payment obligations, the overdue amounts accrue interest at a daily rate calculated pursuant to the gas transportation terms and conditions. Failure to cure such breach within the specified

grace period, which pursuant to the transportation terms and conditions may vary from ten to ninety days, may result in suspension of service and termination of the agreement.

Interruption of services. The terms and conditions under most of our gas transportation permits specifically provide that we are not liable for the interruption of transportation services due to f*orce majeure*, failure of a customer's facilities, required maintenance or adjustments in our facilities, or breach of the customer's obligations. Pursuant to the terms and conditions included in some of our gas transportation permits, under certain circumstances customers are required to pay the corresponding capacity fee during the interruption period. In the event of a service interruption for any other reasons, we are required to provide to the affected customer a premium equal to five times the amount of natural gas that would have been available during the interruption period if such interruption had not occurred.

In the event of an interruption due to *force majeure* lasting more than five business days, we 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 transportation services agreement. After a certain time period from the occurrence of such *force majeure* event, which may vary depending on the applicable transportation terms and conditions, the affected party may terminate the relevant agreement.

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

Dispute resolution. Any dispute will be resolved through arbitration. If a customer is deemed to constitute a consumer within the meaning of the Mexican Consumer Protection Law (*Ley Federal de Protección al Consumidor*), any dispute will be resolved in accordance with such law.

Rates. We are allowed to negotiate lower rates than the ones established by the Mexican Energy Regulatory Commission. In any case, rates for interruptible services must be lower than rates for firm services. We must publish our rates annually in the Mexican Official Gazette and in the official gazettes of the states in which we provide transportation services.

Distribution Terms and Conditions

The natural gas distribution terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Distribución de Gas Natural*), or distribution terms and conditions, which constitute an integral part of our natural gas distribution permits, govern the reception, delivery and marketing of natural gas. The distribution terms and conditions for each of the regions we serve must be approved by and registered with the Mexican Energy Regulatory Commission as part of our distribution permit for that region.

Although the terms and conditions for each of our distribution permits are substantially similar, there may be certain provisions that vary from one permit to another. Below is a summary of the principal provisions that are common to the terms and conditions for each of our gas distribution permits:

Services. We provide firm and interruptible distribution services by delivering natural gas to our customers at different delivery points in our pipeline systems. In the event we must interrupt, restrict or modify our services, our firm services will have priority over our interruptible services. In the event of a service interruption without cause, we must provide to our customers with compensation in an amount equal to five times the amount of natural gas that would have been available during the interruption period if such interruption had not occurred.

Interconnection. After expiration of the exclusivity period granted to us by the Mexican Energy Regulatory Commission for each geographic region, we must allow other concessionaires to connect to our pipeline system as long as we have sufficient available capacity and if such connection is economically viable. Currently, the

interconnection rates are determined by agreement between us and the other concessionaire. However, we expect that the Mexican Energy Regulatory Commission will begin regulating such rates in the near future.

Rates. We are allowed to negotiate lower rates than the ones established by the Mexican Energy Regulatory Commission. In any case, rates for interruptible services must be lower than rates for firm services. We must publish our rates annually in the Mexican Official Gazette and in the official gazettes of the states in which we provide distribution services.

System capacity. We must determine the maximum daily usage of our distribution system in accordance with the "Stoner Workstation" simulation model, which is the international standard used in our industry to determine pipeline flows. If the requested capacity exceeds our available capacity, we must assign priority to our residential and commercial customers and must consult with our industrial customers regarding the reduction or interruption of their service.

Security deposit or other guaranties. In order to establish their creditworthiness our customers must (1) provide a security deposit in an amount equal to three times their expected monthly consumption, (2) provide a guarantor, a letter of credit or a performance bond, or (3) comply in a timely manner with the payment of all invoices for 12 consecutive months.

Safety obligations. We must give to the Mexican Energy Regulatory Commission and to local authorities immediate notice of any event that poses a threat to public health and safety, and of any actions we have taken to address the relevant issue. All our equipment, materials and systems must comply with the specifications set forth in Mexican Official Standards or, absent any such standard, with international industry standards. We must provide training to our employees for purposes of the prevention and remediation of accidents and must assist in the efforts of government authorities with respect to emergencies and other occurrences. In addition, we must obtain and maintain liability insurance in the amounts specified in our permits.

Liability. We will be liable for any damages caused as a result of the provision of our services up to the delivery point, except where such damages are attributable to the fault or gross negligence of the affected party. Customers will be liable for any damages suffered by them or by any third party subsequent to the delivery.

Interruption of services. We may interrupt our services without liability (1) if we determine that a customer's system or equipment poses a material risk or danger, or (2) upon written order of a competent authority stating that the customer's system poses a risk or danger or does not meet the requirements set forth in the applicable laws. We may also suspend a customer's service if the customer has two or more invoices outstanding.

In addition, we will not be liable for service interruptions due to (1) *force majeure* or acts of God, (2) customer system failures attributable to human error, (3) customer system maintenance issues, extensions or alterations, provided we have given notice of the relevant issue to the custormer, or (4) the customer's default with its obligations under its services agreement with us.

Termination. A customer may terminate its services agreement with us upon no less than two days' notice of such termination.

Dispute resolution. Any dispute will be resolved through arbitration. If a customer is deemed to constitute a consumer within the meaning of the Mexican Consumer Protection Law, any dispute will be resolved in accordance with such law.

Energy Regulatory Agencies Law

As holders of LNG and LPG storage permits, natural gas and LPG transportation permits, natural gas distribution permits and electric power generation permits, our activities are and will continue to be subject to regulation primarily by the Mexican Energy Regulatory Commission.

Natural Gas Regulations

Our natural gas businesses are also subject to the Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law and, to a lesser extent, by the Regulations Under the Hydrocarbons Law, both of which were enacted on October 31, 2014.

In addition, own-use permits granted under the former Natural Gas Regulations (*Reglamento de Gas Natural*), including our permit for our Termoeléctrica de Mexicali power plant, remain subject to the provisions contained in such regulations, to the extent they do not conflict with the new legal framework, pending the issuance of new regulations by the Mexican Energy Regulatory Commission.

The Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law, which include the storage, transportation and distribution of natural gas, sets forth, among other things:

- the requirements applicable to the operations of permit holders, including as to service efficiency, continuity, safety, reliability and consistency;
- the obligation to provide open access;
- the rules relating to the effectiveness, duration and renewal of permits;
- the general rules governing the amendment, transfer, cancellation and revocation of permits;
- the general requirements for obtaining permits;
- the procedure for obtaining permits;
- the rules relating to the provision of multiple services; and
- the legal framework for the regulation of the rates and other terms for the provision of certain services.

A distribution permit allows its holder to distribute natural gas within a geographic region defined by the Mexican Energy Regulatory Commission, taking into consideration the opinion of the Mexican Energy Ministry and other relevant authorities, including those responsible for urban development matters. Typically, distribution permits are granted for a period of 30 years and may be renewed for an additional 15-year period. However, permit holders may apply for new permits one year prior to the expiration of their existing permits. Our existing distribution permits allow us to service the Mexicali, Chihuahua and La Laguna–Durango markets. The exclusivity period we were granted for each of these markets has expired and, accordingly, we must allow other permit holders to interconnect their systems with ours if such interconnection is technically and economically viable. Natural gas transportation permits are granted by the Mexican Energy Regulatory Commission on a non-exclusive basis.

In addition, under the Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law, permit holders who are subject to open access obligations and have available capacity on an ongoing basis must designate an open season for the allocation of such capacity, and permit holders who do not use all of their contracted capacity must release such capacity on an interruptible basis as it becomes available. Furthermore, within the limits of their technical and financial capacity, providers of natural gas transportation, marketing and storage services who are subject to open access obligations must expand their systems at the request of any interested party.

Mexican Center for the Control of Natural Gas

The Mexican Center for the Control of Natural Gas is a new, decentralized agency of the Mexican government whose powers and duties include:

- managing and operating the Mexican Natural Gas Integrated Transportation and Storage System, through Pemex;
- managing the transportation and storage infrastructure formerly owned by Pemex; and
- managing the reserved capacity agreements between Pemex and the Mexican Federal Electricity Commission.

As a result, we must abide by any directive issued by the Mexican Center for the Control of Natural Gas with respect to the provision of open access to our infrastructure, which is part of the Mexican Natural Gas Integrated Transportation and Storage System. Furthermore, our joint venture with Pemex TRI must allow the Mexican Center for the Control of Natural Gas to manage the open access aspects of its transportation service agreements with Pemex TRI, without prejudice of the rights of our joint venture with Pemex TRI under such agreements.

Mexican Official Standards and Directives With Respect to Natural Gas

In addition to the laws and regulations discussed above, the legal framework for the regulation of natural gas businesses includes (1) the Mexican Official Standards issued by the Mexican Energy Ministry, which relate to technical matters such as the quality of natural gas and set forth the technical specifications relating to the design, construction, safety, operation and maintenance of natural gas transportation, storage and distribution systems and facilities, and (2) the directives issued by the Mexican Energy Regulatory Commission with respect to the financial aspects of our business, including prices, rates, accounting and insurance matters. The Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector is expected to issue additional Mexican Official Standards relating to industrial safety and environmental protection.

Regulation of Our LPG Business

Mexican Hydrocarbons Law

The Mexican Hydrocarbons Law allows private companies to engage in the storage, transportation, distribution, marketing and retail sale of petroleum products, including LPG, and to import and export petroleum products, provided they obtain the requisite permits from the Mexican Energy Ministry and the Mexican Energy Regulatory Commission. Permits granted before the enactment of the Mexican Hydrocarbons Law, including our permits for our LPG terminal and TDF LPG pipeline, will remain in effect until their scheduled expiration date.

LPG Regulations

The Regulations Under the Hydrocarbons Law and the Regulations Relating to the Activities Referred to in Title Three of the Hydrocarbons Law govern first-hand LPG sales and the transportation, storage and distribution of LPG, which are subject to Mexican federal jurisdiction, and allow private companies to build, own and operate LPG pipelines, facilities and related equipment, subject to the provisions contained in such regulations.

Other Mexican Regulatory Agencies

We are also subject to regulation by the Mexican Antitrust Commission, which has joint jurisdiction with our primary regulators on matters pertaining to the prevention and elimination of monopolistic practices and business concentrations in the natural gas and LPG markets. The Mexican Antitrust Commission, with the prior approval of the Mexican Energy Regulatory Commission, is authorized to issue regulations aimed at fostering the development of competitive markets in the Mexican hydrocarbon sector, including restrictions on the formation of economic groups, stock ownerships and the interests held by operators in marketing companies.

The development, construction and operation of natural gas and LPG systems requires various other permits and/or licenses, including environmental permits, zoning permits, construction permits and concessions

and/or rights of way over federal properties such as rivers, streams and maritime zones for dry docking, from various federal, state and/or local authorities.

The authority to issue certain environmental permits that are critical for the development of projects or the conduction of activities in the Mexican hydrocarbons sector, such as environmental impact authorizations, forestland conversion permits and atmospheric emissions permits, and to oversee the remediation of contaminated sites, has been delegated to the newly created Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector, which is a decentralized agency of the Mexican Ministry for the Environment. The Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector is also authorized to issue regulations relating to industrial and operational safety and environmental matters, perform inspections, grant authorizations and approvals and impose penalties for safety and environmental violations. The organizational structure and the powers and authority of the Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector are set forth in its internal regulations, which were published on October 31, 2014. Immediately following its creation, the Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector began reviewing, processing and approving environmental permit applications.

Other Applicable Laws and Regulations

Our business operations are subject to other standards that may affect our business, including state and municipal laws and regulations related to zoning, construction and civil protection.

Regulation of Our Power Generation Business

The December 2013 amendment of the provisions of the Mexican Constitution relating to the energy sector, and the new Mexican Law for the Electricity Industry Industry, which repealed and replaced the Mexican Law for Power Utilities, allowed private companies to engage in the construction and operation of power plants and apply for permits to generate and sale of electricity in the Mexican wholesale market. The transmission and distribution of electrical power remains reserved to the Mexican government, through the Mexican Federal Electricity Commission or other state-owned entities, which may enter into contracts with private companies to such effect, including financing and procurement arrangements and contracts for the installation, maintenance, operation and expansion of components of the Mexican power grid. 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.

Private electricity producers are allowed to participate in the new wholesale market operated by the Mexican Center for the Control of Electrical Energy. Companies engaged in the production, marketing and supply of electricity in the wholesale market, and “qualified users,” may purchase and sell electricity and other related products through market participation and electricity hedging arrangements. Qualified users may also purchase electricity from either the Mexican Federal Electricity Commission or independent producers.

Under the Mexican Law for the Electricity Industry, power plants with an installed capacity of at least 0.5 MW or which are represented by a power producer in the wholesale market (regardless of capacity), require a power generation permit. Power plants with an installed capacity of less than 0.5MW do not require such permit but may only sell electricity and other related products through a wholesale supplier.

Permits granted prior to the enactment of the Mexican Law for the Electricity Industry, including the export permit granted to our Termoeléctrica de Mexicali power plant in 2001 and the export permit granted to our Energía Sierra Juárez wind power generation project in 2012, remain in effect in their original terms and are not affected by the new regulatory framework.

The Mexican Law for the Electricity Industry authorizes the Mexican Energy Ministry to establish the requirements that must be satisfied by power suppliers, qualified users, own use producers and loading centers included in grandfathered interconnection agreements, whose electricity is produced from fossil fuels, in order to obtain clean energy certification. Clean energy certificates will be required from 2018, based on the consumption percentages established by the Mexican Energy Ministry, which are subject to annual increase, starting at 5% in

2018. Clean energy certificates may be purchased or sold through electricity hedging transactions or in the Mexican wholesale market.

Clean energy certificates may be awarded to clean power producers such as wind and solar farms and geothermal and cogeneration plants, with each producer being entitled to one certificate for each Megawatt hours, or MWh, of clean energy produced at their facilities in accordance with the instructions issued by the dispatch facilities of the Mexican Center for the Control of Electrical Energy. Clean energy certificates will be awarded to power producers on a per MWh basis if their production does not involve the use of fossil fuels, or for each MW generated at the minimum level of efficiency determined in accordance with their usage of fossil fuels, so long as the maximum permitted levels of polluting emissions are not exceeded.

As facilities interconnected to the grid controlled by the California Independent System Operator, our Termoeléctrica de Mexicali power generation facility and our Energía Sierra Juárez wind generation project 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 generation project 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 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.

Our Termoeléctrica de Mexicali power generation facility and our Energía Sierra Juárez wind generation project 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 which 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.

Other Mexican Regulatory Agencies

Our power generation businesses will continue to be subject to regulation primarily by the Mexican Mexican Ministry of the Environment and Natural Resources.

Mexican Anticorruption Law in Public Contracting

On June 12, 2012, the Mexican Anticorruption Law (*Ley Federal Anticorrupción en Contrataciones Públicas*) became effective. The Mexican Anticorruption Law sets forth liabilities and penalties applicable to both Mexican and foreign individuals and legal entities that participate in corrupt practices in federal public contracting, as well as to those Mexican individuals and legal entities that participate in corrupt practices in commercial

international contracting with the public sector of a foreign state, or the granting of permits and concessions thereby. We are subject to the Mexican Anticorruption Law with respect to any activities that require the granting of a permit or a concession by a federal governmental entity, through a public or private bid process, or the contracting with a federal governmental entity.

The Mexican Anticorruption Law states that an individual or legal entity will be liable when, in federal public contracting or the granting of permits or concessions by federal governmental authorities, it directly or indirectly promises, offers, or delivers money or any other gift to a public servant or a third party, in exchange for such public servant's performance or abstinence from performing an act related to his/her duties or those of another public servant, with the intent of obtaining or maintaining a benefit or advantage, regardless of whether the money or gift was accepted or received or the result was obtained. The Mexican Anticorruption Law also applies to similar conduct related to international commercial contracting with the public sector of a foreign state.

The Mexican Anticorruption Law provides for the investigation of possible infringers and includes an administrative procedure to address claims. The Mexican Ministry for Public Administration Matters is the authority in charge of investigating and penalizing infringement of the Mexican Anticorruption Law. Other authorities also have authority to penalize for infringement of the Mexican Federal Anticorruption Law within the scope of their duties.

Individuals and legal entities may be subject to fines of up to fifty thousand times the daily minimum wage and legal entities may be subject to fines of up to two million times the daily minimum wage, with the possibility of being increased by an additional 50% when the benefit received exceeds the amount of the fine, among other reasons. Additionally, individuals may be penalized with prohibition from participating in federal public contracting for up to eight years and legal entities may be penalized with prohibition from participating in federal public contracting and the award of permits or concessions for up to 10 years. The Mexican Anticorruption Law includes a fine reduction regime ranging between 50% and 70% of the penalty if the conduct is spontaneously disclosed or "confessed" before the initiation of the administrative procedure and 50% of the penalty if the conduct is disclosed or "confessed" once initiated.

Mexican Law for the Protection of Personal Data

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

Pursuant to the Mexican Law for the Protection of Personal Data, 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 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 is deemed to have granted consent for the use of his or her personal data if he or she does not oppose the privacy notice. The privacy notice can be delivered through printed, digital, visual, electronic or audio means or in any other format. Under the Mexican Law for the Protection of Personal Data, data owners may revoke their consent at any time. The Mexican Law for the Protection of Personal Data 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 our LNG Terminal, including a dry dock and ancillary maritime infrastructure, we are subject to the Mexican Ports Law (*Ley de Puertos*) and its regulations and to the jurisdiction of the federal government through the Mexican Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*).

Pursuant to the Mexican Ports Law, the construction and operation of maritime infrastructure as well as dredging activities require specific authorizations from the Mexican Ministry of Communications and Transportation. Likewise, the use of federal maritime zones requires special personal authorizations known as concessions, which are exclusive to Mexican corporations.

Concessions may be granted for a period of up to 50 years, depending on the characteristics of and the amount invested in the relevant project, and may be renewed for a period of time equal to their original period. The Mexican Ministry of Communications and Transportation may revoke a concession in certain events specified in the Mexican Ports Law, including (1) the extinction of the purpose for which the concession was granted, (2) bankruptcy or liquidation of the permit holder, or (3) recall. In addition, our concession may be revoked in certain circumstances, including if we do not comply with our obligations under our permits or upon the partial or total suspension of operations of our systems or facilities without cause.

Constitutional Amendment on Class Actions

On July 29, 2010, Article 17 of the Mexican Constitution was the subject of an amendment allowing the commencement of class actions relating to consumer protection, environmental and other matters before Mexican federal civil courts. On August 30, 2011, the Mexican Federal Code of Civil Procedures (*Código Federal de Procedimientos Civiles*), the Mexican Consumer Protection Law and the Mexican Law on Environmental Balance and the Protection of the Environment (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*) were amended to include the requisite provisions on class actions. These amendments took effect on March 1, 2012. However, to the best of our knowledge, as of the date of this report only one class action has ever been brought before the Mexican federal courts with jurisdiction over environmental matters.

Mexican Environmental Liability Law

Liability for damages to the environment, including remediation and compensation, is governed by the Mexican Environmental Liability Law, which was published on July 7, 2013. A person who is found liable for damages to the environment as a result of willful misconduct or unlawful acts or omissions may be fined in excess of Ps.40 million without prejudice of such person's potential liability under any other provision of an administrative, civil or criminal nature.

Legal entities may be found liable for damages to the environment as a result of conducts undertaken by their directors, officers, employees, representatives, agents and those otherwise responsible for managing their operations. Actions seeking a person's liability for environmental damages must be brought within 12 years from the occurrence of the relevant damage. The parties to an environmental dispute may resort to alternative dispute resolution mechanisms so long as the public interest or the interests of third parties are not affected.

Mexican Labor Law

On November 30, 2012, the Mexican Labor Law (*Ley Federal del Trabajo*) was amended in order to incorporate therein, among other things: (1) the standards adopted by the International Labour Organization with respect to non-discrimination towards women and the disabled in the labor environment; (2) three new types of employment arrangements, namely, initial training contracts, trial contracts and discontinuous seasonal contracts; and (3) the legal framework for the sub-contracting of labor, including the legal requirements for the contracting of employees through third parties. While we do not expect these amendments to have a material impact on us, we cannot predict with any degree of certainty the potential effects of their enforcement.

Permits

LNG Permits

LNG Storage

We operate our LNG terminal under an LNG storage permit granted by the Mexican Energy Regulatory Commission on August 7, 2003. This permit allows us to provide LNG storage and regasification services through 2033, and requires that we 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 our LNG terminal 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 permitted if the permit is transferred together with our LNG terminal. 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) we engage in unduly discriminatory practices or infringe the rates authorized by the Mexican Energy Regulatory Commission, (3) we assign, transfer, pledge or modify the permit in violation of its terms, or (4) we do not comply with the obligations set forth in the permit.

In October 2007, the Mexican Energy Regulatory Commission approved the expansion of our LNG 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 terms and conditions (as amended from time to time by us and approved by the Mexican Energy Regulatory Commission as part of our natural gas storage permit) require an open bidding process in the event that we wish to expand the capacity of our LNG terminal. Based on current market conditions, we do not anticipate any near-term expansions of the terminal's capacity.

Power Generation

We conduct our electrical power generation activities at our LNG terminal under a self-use power generation permit granted by the Mexican Energy Regulatory Commission on February 2, 2005. This permit allows us to engage in power generation activities at the terminal for an indefinite term. 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 applicable regulations.

Assignment and transfer of this permit is only permitted 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 we (1) are repeatedly sanctioned by the Mexican Energy Regulatory Commission for selling, reselling or otherwise transferring the electricity generated in violation of the permit, (2) generate electricity in violation of the conditions established in the permit, (3) assign, transfer, pledge or modify the permit without the authorization of the Mexican Energy Regulatory Commission, or (4) otherwise fail to comply with the terms and conditions of the permit.

Transportation Permits

Each of our transportation systems holds a separate transportation permit issued by the Mexican Energy Regulatory Commission allowing it to engage in its natural gas transportation operations. These permits each have a term of 30 years and their expiration dates range from 2028 to 2035.

These permits provide that allocation of pipeline capacity must be conducted on a non-discriminatory basis in accordance with open access principles. In addition, the permit requires that operation and maintenance of our transportation systems be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations. Any modification of these permits requires prior

approval by the Mexican Energy Regulatory Commission. These permits can only be assigned if the applicable transportation system is transferred together with the permit.

Each of these permits is subject to revocation in the event that (1) there is an interruption of transportation service without justified cause or without the authorization of the Mexican Energy Regulatory Commission, (2) we engage in unduly discriminatory practices or infringe the rates authorized by the Mexican Energy Regulatory Commission, or (3) we assign, transfer, pledge or modify the permit in violation of its terms.

Distribution Permits

Our Ecogas distribution system holds separate distribution permits for each of its three distribution zones, allowing it to conduct natural gas distribution services in those locations. These permits each have a term of 30 years and their expiration dates range from 2027 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. In addition, the permits require that operation and maintenance of our distribution systems be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations. These permits can only be assigned if the applicable distribution system is transferred together with the permit.

Power Generation Permits

Termoeléctrica de Mexicali

Our Termoeléctrica de Mexicali power plant holds two power generation permits issued by the Mexican Energy Regulatory Commission. Under the first of these permits we are able to produce and export up to 679.7 MW of electric power to the United States, with the term of the permit running through August 2031. In addition, in June 2011 we received a permit to import 12.0 MW of electricity from the United States to power the generation station, with an indefinite term. The permit requires that operation and maintenance of the power plant be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations.

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

Each of these permits is subject to revocation in the event that we (1) are repeatedly sanctioned by the Mexican Energy Regulatory Commission for selling, reselling or otherwise transferring the electricity generated or the generation capacity, or importing electric energy in violation of applicable law or the permit, (2) assign, transfer or modify the 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 fail to comply with the terms and conditions set forth in the applicable law or the permit, Mexican Official Standards or applicable technical and operational specifications.

Energía Sierra Juárez

Our Energía Sierra Juárez wind powered generation project will be operated under two electric power generation permits granted in June 2012 by the Mexican Energy Regulatory Commission: (1) an electric energy import permit that will allow us to import electricity to Mexico from the United States for an indefinite term, solely to satisfy the project's electricity requirements; and (2) a 30-year electric energy export permit that will allow us to produce up to 155 MW as an independent power producer, which may be renewed upon satisfaction of certain conditions. Under these permits, electricity will be imported and exported through a transmission line that interconnects with SAG&E'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 permits from the Mexican Energy Regulatory Commission to generate and sell electricity.

Environmental Matters

Applicable Laws and Regulations

Our operations are subject to regulation by Mexican federal, state and local environmental authorities, laws and regulations, Mexican Official Standards and other technical guidelines. The distribution of jurisdiction over environmental matters among governmental authorities at the federal, state and local levels is based on a "residual formula" established in the Mexican Constitution, which provides that matters which are not expressly reserved to the federal government fall under the jurisdiction of state governments. While energy projects mainly fall under the jurisdiction of the federal government, some specific environmental matters such as the handling of non-hazardous waste and the opening of new access roads may fall under state or local jurisdiction.

The primary federal environmental laws that govern our businesses are the Mexican Law on Environmental Balance and the Protection of the Environment, the Mexican Law for the Prevention and Comprehensive Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*), the Mexican Law on National Water Resources (*Ley de Aguas Nacionales*), the Mexican Law for Sustainable Forestry Development (*Ley General de Desarrollo Forestal Sustentable*), the Mexican Environmental Liability Law and the Mexican Law of National Property (*Ley General de Bienes Nacionales*). Our businesses are also subject to a number of regulations and rules issued under such laws, including, among others, regulations and rules relating to environmental risks and impact, noise, atmospheric emissions, extraction of water, waste water discharges and waste management. Our businesses may also be subject to other laws, regulations and technical requirements, such as the Mexican Health Law (*Ley General de Salud*) and the Mexican Federal Regulations on Workplace Safety, Hygiene and Environmental Conditions (*Reglamento Federal de Seguridad, Higiene y Medio Ambiente en el Trabajo*).

Failure to comply with the applicable environmental laws, regulations and Mexican Official Standards may result in the imposition of administrative fines or penalties, the revocation of the relevant authorizations, concessions, licenses, permits or registrations, administrative arrests, the seizure of polluting equipment, temporary or permanent plant closures and, where the relevant environmental violation constitutes a crime, jail.

Our projects operate under licenses, permits, authorizations, concessions and registrations granted under the aforementioned laws. We believe that we have obtained all material permits, licenses, registrations, concessions and/or authorizations required for the operation of our facilities and projects, and that we are in substantial compliance with all applicable environmental laws and with the terms of our permits. Except as described in "Business – Legal, Administrative and Arbitration Proceedings – LNG Terminal – Actions Challenging the Validity of the LNG Terminal Permits" and "Business – Legal, Administrative and Arbitration Proceedings – Energía Sierra Juárez," as of the date of this report there are no material environmental-related legal or administrative proceedings pending against us.

We follow internal policies and procedures to ensure compliance with applicable laws, regulations and our permits. From time to time we update our 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, we undertake the necessary actions to maintain the effectiveness thereof.

Regulatory and Oversight Authorities

The Ministry for the Environment is the primary agency responsible for environmental policies and management and is empowered, among other things, to grant environmental impact authorizations and federal licenses for the release of emissions into the atmosphere and to issue Mexican Official Standards relating to the environment. Recently, the Mexican Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector has assumed a key role in the regulation of environmental matters and industrial and operational safety in the Mexican hydrocarbons sector.

The Mexican Agency for Industrial Safety and the Protection of the Environment in the Hydrocarbons Sector, under the direction of the Mexican Ministry of the Environment and Natural Resources, is responsible for implementing certain specific provisions of Mexican environmental laws and is authorized to perform inspections and impose penalties for the violation of legal provisions relating to matters under its jurisdiction. The Mexican Environmental Protection Enforcement Agency is the enforcement arm of the Ministry for the Environment and is authorized to investigate and inspect facilities, impose penalties and resolve upon administrative appeals against the imposition of penalties for alleged violation of Mexican environmental laws.

The Mexican Water Commission (*Comisión Nacional del Agua*) is the authority responsible for managing Mexico's national above and underground water resources and for issuing regulations aimed at preventing water pollution and protecting certain related assets, including rivers, dams and other bodies of water. The Mexican National Water Commission is authorized to grant concessions for the use and exploitation of Mexico's national water resources as well as permits for the discharge of wastewater into bodies of water. The Mexican National Water Commission has its own enforcement arms, which are independent from the Mexican Environmental Protection Enforcement Agency.

Environmental Certificates, Policies and Programs

Clean Industry and Environmental Performance Certificates

Several of our operating subsidiaries participate in a separate voluntary environmental audit program outlined by the Mexican Environmental Protection Enforcement Agency, and all of our subsidiaries currently hold clean industry or environmental compliance certificates. We expect that our new projects will each participate in such a program after becoming operational and will be awarded the aforementioned certificates.

As part of these voluntary environmental audit programs, participants undertake to retain a duly qualified independent environmental auditor to audit their operations from the environmental standpoint. Based on his findings, the environmental auditor prepares and recommends to the relevant company a plan of preventive and/or corrective measures and, depending on the requirements of the relevant certification process, submits to the Mexican Environmental Protection Enforcement Agency a report on his findings and his opinion on the adequacy of such plan. Subject to its review and approval of the auditor's findings and recommendations, the Mexican Environmental Protection Enforcement Agency enters into an agreement with the relevant company to provide for the implementation of the plan.

The voluntary environmental audit process culminates with the issuance of a clean industry or an environmental performance certificate, which serves as testament to the fact that its holder has complied with the terms of the aforementioned plan and conducts its operations in strict compliance with Mexican federal environmental laws and regulations and, as the case may be, with international standards and sound operating and engineering industry practices. Clean industry certificates are valid for two years and may be renewed for like periods any number of times, so long as the holder can demonstrate that it has maintained or exceeded its environmental performance standards as of the date on which the certificate was first awarded.

Our Internal Environmental Policies

We conduct our business in compliance with the Corporate Environmental Policy of Sempra Energy, a policy developed and implemented globally for the companies of the Sempra Energy group. In 2014 we developed a separate environmental policy that is applicable to all our employees and contractors and implemented in each of our new projects and in the operation and maintenance of our facilities and processes.

We are committed with the protection, preservation and conservation of the environment and its biodiversity through the prevention of water, air and soil pollution and pollution from the generation of waste, and through the maintenance of an ongoing dialog with our various groups of interest. The commitments stated in this policy include:

- minimizing and managing the environmental impact of our operations and services;
- managing all resources in a sustainable fashion and improving and monitoring our operating and environmental management processes on an ongoing basis;
- optimizing our environmental performance in terms of our consumption of water, combustible products and electricity, in accordance with goals and objectives that are reviewed annually; and
- complying with all applicable environmental laws, regulations and rules, implementing the best industry practices and global corporate guidelines, and satisfying all the requirements imposed by our permits;

We often impose internal standards beyond Mexican regulatory requirements.

Environmental Programs

We have several ongoing environmental programs, such as the re-vegetation and protection of marine species programs under our LNG terminal's sponsorship. These programs involve the rescue and relocation of certain protected species such as the *ferocactus viridescens,* as well as reforestation and flora compensation and conservation. The marine species protection program is aimed at monitoring of marine mammals.

Our Sonora pipeline, Aguaprieta pipeline and Energía Sierra Juárez wind generated power project have programs that involve the rescue, reforestation and compensation of protected species native to the regions where these projects are located.

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

vi) Human Resources

EMPLOYEES

As of December 31, 2013, 2014 and 2015, we had a total of 496, 581 and 639 employees, respectively, of which 6.5%, 6.3% and 5.8%, respectively, were unionized. The following sets forth our number of full-time employees by type of activity and business segment:

	2013	2014	2015
Activity			
Management	73	84	82
Operations	393	429	485
Construction and engineering	30	68	72
Business Segment			
Gas[(1)]	374	425	478
Power[(2)]	46	62	58
Corporate	76	94	103
Total employees	496	581	639

(1) For the years ended December 31, 2013, 2014 and 2015, it excludes, respectively, the 154, 179 and 189 employees employed by our joint venture with Pemex TRI.

(2) For the years ended December 31, 2014 and 2015, it includes, respectively, the 17 and 12 employees employed by our joint venture with InterGen.

Collective Bargaining Agreements

We have in place collective bargaining agreements with different labor unions. Our 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. We have not experienced any significant labor disruptions with our workforce. We believe that our relationships with our labor unions are satisfactory.

vii) Environmental Performance

See “Regulation, Permits and Environmental Matters – Legal Framework; Taxation.”

INDUSTRY OVERVIEW

viii) Market Information

General

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, the Mexican Federal Electricity Commission, which has exclusive rights to transport and distribute electricity in Mexico and until the recent amendment of the Mexican Constitution as it relates to the energy sector and the enactment of the Mexican Federal Electricity Commission Law (*Ley de la Comisión Federal de Electricidad*) was a decentralized agency of the Mexican government, is now an independent company 100% owned by the Mexican Government. In the natural gas segment, Pemex (together with its subsidiaries, including Pemex TRI), which until the aforementioned constitutional amendment and the enactment of the Pemex Law (*Ley de Petróleos Mexicanos*) was a decentralized agency of the Mexican government, is now also an independent company 100% owned by the Mexican Government. Pemex is engaged in the exploration and extraction of oil and of solid, liquid or gas hydrocarbons and in their collection, sale and marketing. Mexican legal reforms in the 1990s created significant investment opportunities in the natural gas and power segments for private sector entities. The December 2013 amendment to the Mexican Constitution allowed for increased private sector participation in various activities within the Mexican energy sector. This amendment was followed by the enactment of several new laws and the amendment of various existing laws in August 2014, in order to establish a new legal framework for the regulation of the oil, gas and power industries in Mexico and open Mexico's resources to private investment both from Mexican and non-Mexican companies. Both Pemex and the Mexican Federal Electricity Commission, in their capacity as producing companies 100% owned and controlled by the Mexican government, will continue to play a key role in the Mexican natural gas and power segments, respectively.

The Mexican Natural Gas Industry

Until the recent amendment of the legal framework for the regulation of the Mexican energy sector, natural gas production was carried out exclusively by the Mexican government through Pemex and its subsidiaries. The liberalization of the natural gas industry in Mexico began in 1995, when changes to Mexican law allowed private participation in the midstream (transportation and storage) and downstream (distribution) natural gas sectors. Previously, only Pemex was authorized to construct and operate pipelines and transport natural gas in Mexico. Natural gas distribution was also highly restricted at the time. In the years since 1995 there has been a significant increase of private sector investment in midstream and downstream natural gas assets, but the National Pipeline System previously controlled by Pemex TRI still holds a dominant position in the market through the newly created Mexican Center for the Control of Natural Gas. The new legal framework for the regulation of natural gas, which includes the Hydrocarbons Law, will allow private sector entities to process, export, import, transport, store, compress, decompress, liquefy, regasify and market natural gas and other hydrocarbons and sell them directly to the public.

As of July 2015:

- Private sector companies, including IEnova, operated 18 open-access transportation systems;
- Private sector companies, including IEnova, operated 22 distribution companies; and
- Private sector companies, including IEnova, had built three LNG import terminals.

As a consequence of the environmental and financial advantages of natural gas over other energy alternatives, for the past six years demand for natural gas in Mexico has increased significantly, mainly due to the increased usage of natural gas by the Mexican Federal Electricity Commission for electricity generation. 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 Mexican Energy Ministry estimates that Mexico will require more than 5,160 km of natural gas transportation infrastructure by the end of 2019, which will require an estimated investment of approximately US$9.7 billion.

Natural Gas Transportation Projects

	Project	States Benefited	Length (km)	Estimated Invesment (millions of US$)[1]	Date of Auction	Projected Startup
1.	Tuxpan–Tula	Hidalgo, Puebla, Veracruz	263	400	2015	2017
2.	La Laguna–Aguascalientes	Aguascalientes, Zacatecas, Durango	600	1,000	2016	2017
3.	Lázaro Cárdenas–Acapulco	Michoacán, Guerrero	331	456	2016	2018
4.	Tula–Villa de Reyes	Hidalgo, San Luis Potosí	295	420	2015	2017
5.	Villa de Reyes–Aguascalientes–Guadalajara	Aguascalientes, Jalisco, San Luis Potosí	355	555	2015	2017
6.	San Isidro–Samalayuca	Chihuahua	23	109[1]	2015	2017
7.	Samalayuca–Sásabe	Chihuahua, Sonora	650	571[1]	2015	2017
8.	Jaltipan–Salina Cruz	Oaxaca, Veracruz	247	643	2015	2017
9.	Santa Cruz–Tapachula	Chiapas, Oaxaca	440	442	2016	2018
10.	Southern Texas–Tuxpan	Tamaulipas, Veracruz	800	3,100	2015	2018
11.	Colombia–Escobedo	Nuevo León	300	N/A	2016	2018
12.	Los Ramones–Cempoala	Nuevo León, Tamaulipas, Veracruz	855	1,980	2017	2019
13.	Estación de compresión El Cabrito	Chihuahua, Nuevo León	N/A	60	2015	2016

(1) Estimated investment by winning bidder.

Source: Mexican Energy Ministry based on information published by the Mexican Center for the Control of Natural Gas, the Mexican Federal Electricity Commission and Pemex.

The expansion of Mexico's pipeline transportation network is expected to provide broader geographic coverage, increased capacity and improved flexibility, which will be required to support increased natural gas consumption and represents an important opportunity for energy companies that are well positioned to invest in this segment.

Recently, based on the proposals submitted by the Mexican Center for the Control of Natural Gas and the Mexican Energy Regulatory Commission, the Mexican Energy Ministry published its Five-Year Plan for the Expansion of the National Natural Gas Integrated Transportation and Storage System, 2015-2019 (*Plan Quinquenal de Expansión del Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural 2015-2019*). This plan provides for the development of both strategic and social outreach projects and aims to provide systemic benefits to the national network, including 13 infrastructure projects for award through public auctions between 2015 and 2017. These projects encompass more than 5,000 km of new pipelines and will require an estimated investment of approximately US$10 billion.

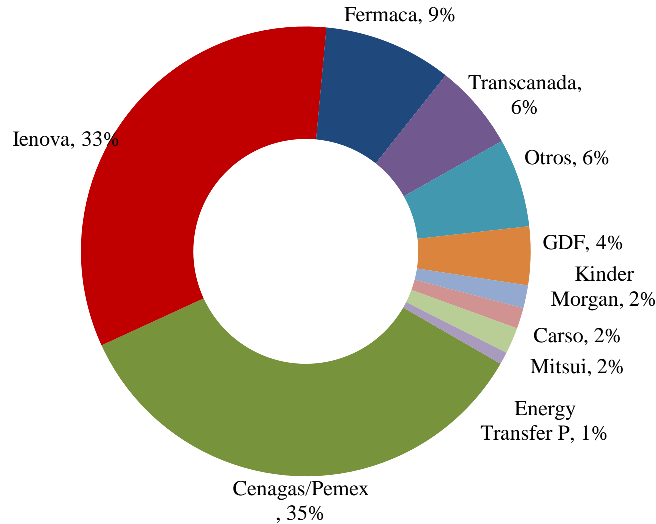
Open-Access Pipeline Transportation Projects

Mexico will need to expand its existing pipeline transportation infrastructure in order to satisfy the growing demand for natural gas. According to the 2015-2019 Five-Year Plan for the Expansion of the National Natural Gas Integrated Transportation and Storage System, between 2015 and 2017 the Mexican government is expected to award at least 13 contracts for the construction and operation of pipelines towards the goal of expanding its transportation capacity and ensuring that by 2019 it will have a solid and vast pipeline network capable of handling the traffic between the delivery points and the end consumers and satisfying the expected levels of demand. As of the end of 2015 the Mexican government had awarded or was in the process of awarding eight of these 13 contracts. We hold a 33% share of the natural gas pipeline transportation market as measured in terms of installed capacity.

Mexico's pipeline network is comprised of 13,889 km of transportation pipelines and 49,181 km of distribution pipelines. The Mexican natural gas transportation market is divided among a few key players, with the

four top players accounting for nearly 90% of the market. Market shares for the natural gas transportation sector are shown in the chart below.

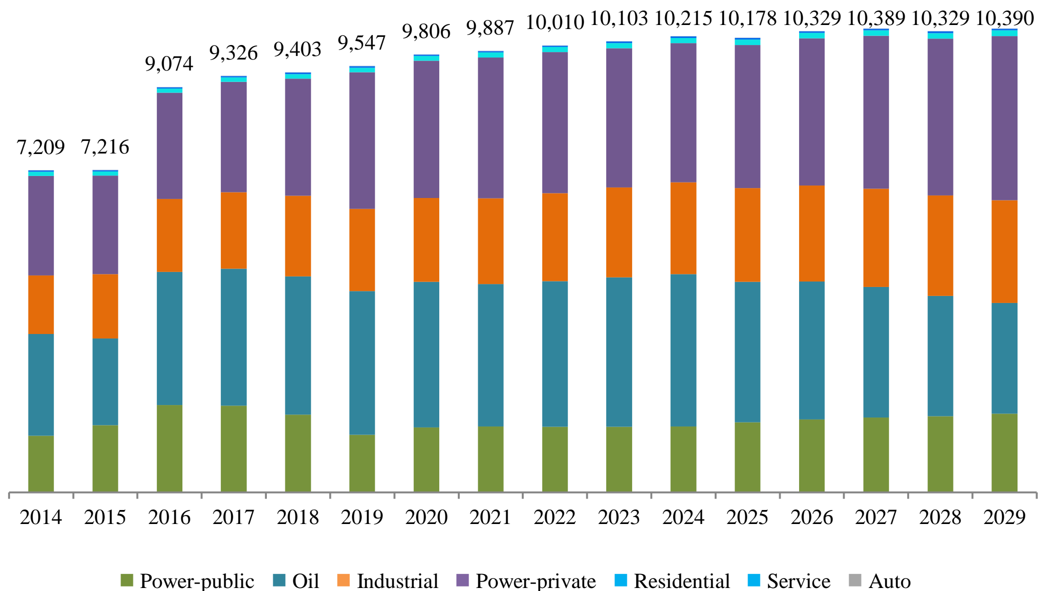
Market Shares in Natural Gas Transportation by Average Volume
(MMcfd)



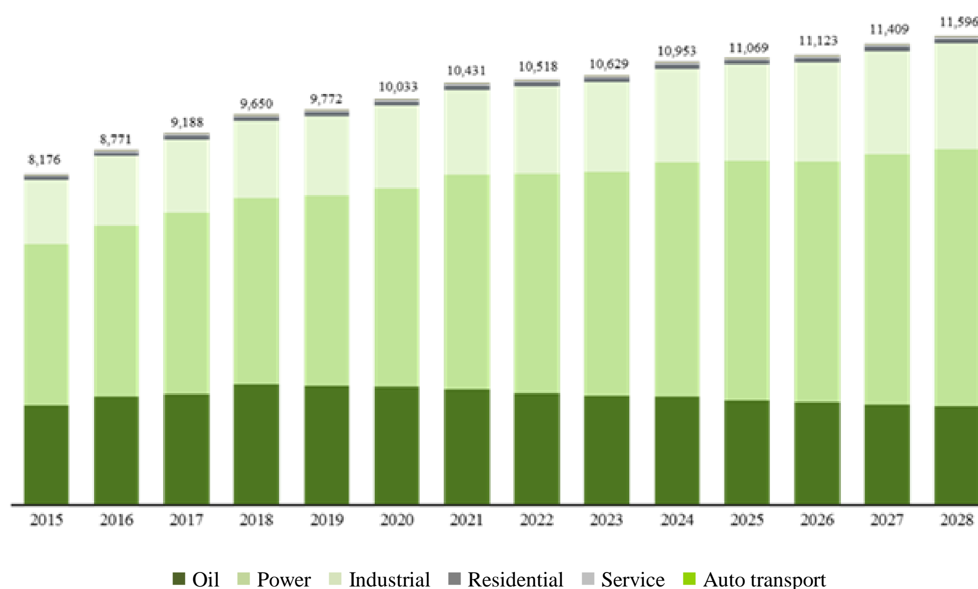
Source: Mexican Energy Regulatory Commission.

Currently, these open-access transportation projects transport natural gas to the Mexican Federal Electricity Commission, independent power producers, or IPPs, 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. The following chart illustrates the expected increase in natural gas demand through 2028.

Natural Gas Demand in Mexico, 2015-2028
(MMcfd)



Source: Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2015-2029.*



Source: Mexican Energy Ministry, *Natural Gas Market Outlook 2014-2018.*

LNG Storage and Regasification Facilities

As a result of the substantial rise in demand for natural gas from the Mexican Federal Electricity Commission and IPPs, domestic demand has begun to outpace domestic production and natural gas imports have increased.

In 2014 Mexico imported 2,861.1 MMcfd of natural gas, which represented a 13.7% increase over 2013, of which 2,004.8 MMcfd were imported via pipeline from the United States and 856.3 MMcfd were received for storage at the three existing LNG terminals. The natural gas received by these terminals was imported primarily from Peru, Trinidad and Tobago, Nigeria, Indonesia and Qatar.

By 2029 the demand for natural gas is expected to rise to 10,390.3 MMcfd, while production is expected to be 6,451.9 MMcfd. This 3,938.3 MMcfd spread will make it necessary for Mexico to resort to the international markets to satisfy its domestic demand. This is expected to include natural gas imports via transnational pipeline systems such as those at the Mexico–U.S. border and LNG imports.

In addition to imports through transnational pipeline systems, imports of LNG have also helped address the growing demand for natural gas in Mexico. Since September 2013, when the Mexican Energy Regulatory Commission published the first set of technical requirements for the operation of natural gas storage and regasification facilities, it has awarded permits for the operation of three LNG storage and regasification terminals.

LNG Storage and Regasification Facilities

Plant	Location	Status	Owners	Startup Date	Regasification Capacity (MMcfd)	Storage Capacity (m^3)	Investment (millions of U.S. dollars)
Altamira LNG	Altamira, Tamaulipas	Operational	Vopak and Energíass	2006	0.7-1.12	300,000	$ 396
Energía Costa Azul	Ensenada, Baja California	Operational	IEnova	2008	1.00-1.30	320,000	$ 875
KMS LNG Terminal	Manzanillo, Colima	Operational	KoGas, Mitsui and Samsung	2012	0.5	300,000	$ 783

Source: *Wood Mackenzie.*

Transportation of Liquid Petroleum Products

Mexico lacks efficient transportation, distribution and storage infrastructure for liquid petroleum products, despite the growing demand for refined products throughout the country. Road transportation continues to provide a significant percentage of refined petroleum transportation, and there are increasing opportunities to provide more efficient means of transportation to reach the growing demand from consumption centers. According to the Petroleum and Liquid Petroleum Products Market Outlook 2015-2019 (*Prospectiva de Petróleo y Petrolíferos 2015-2019*), from 2004 to 2014 gasoline and diesel demand grew at an average annual rate of 2.0% and 2.9%, respectively. This scenario points to a potential investment opportunity in the development of petroleum based product transportation and storage infrastructure.

The recent reform of the legal framework for the regulation of Mexico´s energy industry will allow private sector participation in the construction and operation of petroleum product storage and transportation facilities. Transportation and storage of petroleum products will be regulated and the private sector will be able to participate, subject to obtaining a permit from the Mexican Energy Regulatory Commission.

LNG Terminal

Mexico has no storage capacity for natural gas, with the exception of that associated with LNG import projects. Developers of natural gas storage terminals need a storage permit from the Mexican Energy Regulatory Commission. Storage rates are regulated by the Mexican Energy Regulatory Commission, but private companies may negotiate rates below the maximum regulated rate.

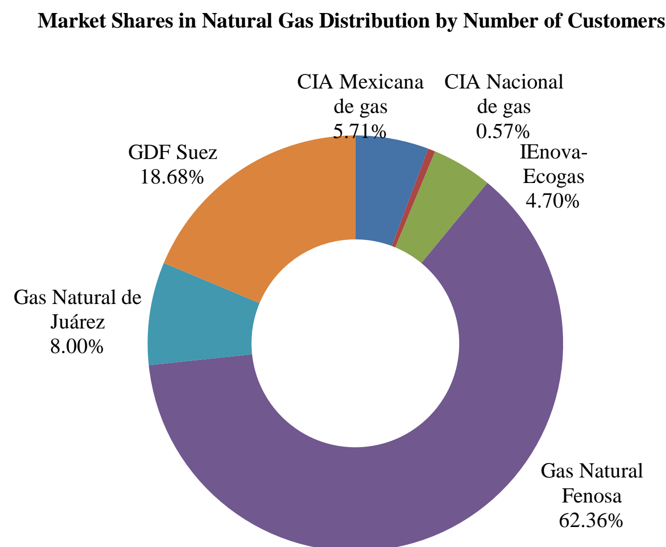
Determining the type of storage plant represents a challenge. The use of exhausted fields has been problematic due to the existence of residual hydrocarbons that can mix with stored natural gas, generating problems with quantification and the legality of the "extraction." Fields of non-hydrocarbon resources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

Natural Gas Distribution Business

During the period from 1995 to 2015, the Mexican Energy Regulatory Commission granted 26 permits to expand natural gas distribution infrastructure in Mexico, with a total length of approximately 39,804 km.

Market shares for the natural gas distribution market are shown in the chart below, based on the number of customers served by each network. The top two players control 73% of the total natural gas distribution market.

Market Shares in Natural Gas Distribution by Number of Customers



Source: Regulatory Briefing 2014-2015 (*Prontuario Regulatorio 2014-2015*).

LPG Market

Current Mexican regulations allow private investment in LPG transportation, distribution and storage. The distribution market is dominated by a very small group of participants, with substantial entry barriers. However, the transportation and storage sectors offer significant investment opportunities.

Overall, we believe 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 most 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, we believe 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. Pemex TRI's investment program calls for the provision of ongoing, comprehensive maintenance to the supply terminals and for the replacement of their control systems pending additional investments to reduce their environmental impact.

Natural Gas Marketing

The Mexican Energy Regulatory Commission is working towards the implementation of the permanent first-hand natural gas sales, or FHS, regime. The implementation of the permanent FHS regime would allow every player in the natural gas industry to purchase natural gas directly at the Pemex processing plant or at an import point, ending a long transitory regime in which users of the National Pipeline System (other than IPPs) must acquire natural gas and transportation services from Pemex TRI on a bundled basis (including gas, transportation, administrative fees and profit margin on imports). Once implemented, the permanent FHS regime will allow gas marketers to have an increased role in the natural gas industry. Natural gas marketers will require a permit from the Mexican government. Pursuant to the Mexican Hydrocarbons Law, the Mexican Energy Regulatory Commission will be the authority responsible for issuing natural gas marketing permits.

The Mexican Power Generation Sector

The recent amendment of the legal framework for the regulation of the Mexican energy sector allowed private companies to participate in most segments of the electricity industry. In particular, private companies may engage in the construction and operation of power plants and may compete with the Mexican Federal Electricity Commission in the wholesale market. While the transmission and distribution of electric power are controlled by the Mexican government, private companies may participate in these segments through service contracts. The supply of electric power as a utility is reserved exclusively to the Mexican Federal Electricity Commission, but qualified users may purchase from any power producer in a regulated wholesale electricity market.

The following map shows the location of current investment opportunities in power transmission projects in Mexico:

Source: Program for the Development of the National Electricity System (*Programa de Desarrollo del Sistema Eléctrico Nacional*), published by the Mexican Energy Ministry; Mexican Center for the Control of Electrical Energy.

After successfully awarding build-lease-transfer projects –principally Samalayuca II– in the mid-1990s, new legislation in 1997 allowed the Mexican Federal Electricity Commission to start bidding out IPP plants. 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.

A legal reform enacted in1992 allowed IPPs to engage in the construction, financing, operation and maintenance of power plants, provided they meet certain quality and technical standards. However, the electricity generated by IPPs must be sold exclusively to the Mexican Federal Electricity Commission at fixed prices under long-term power generation agreements.

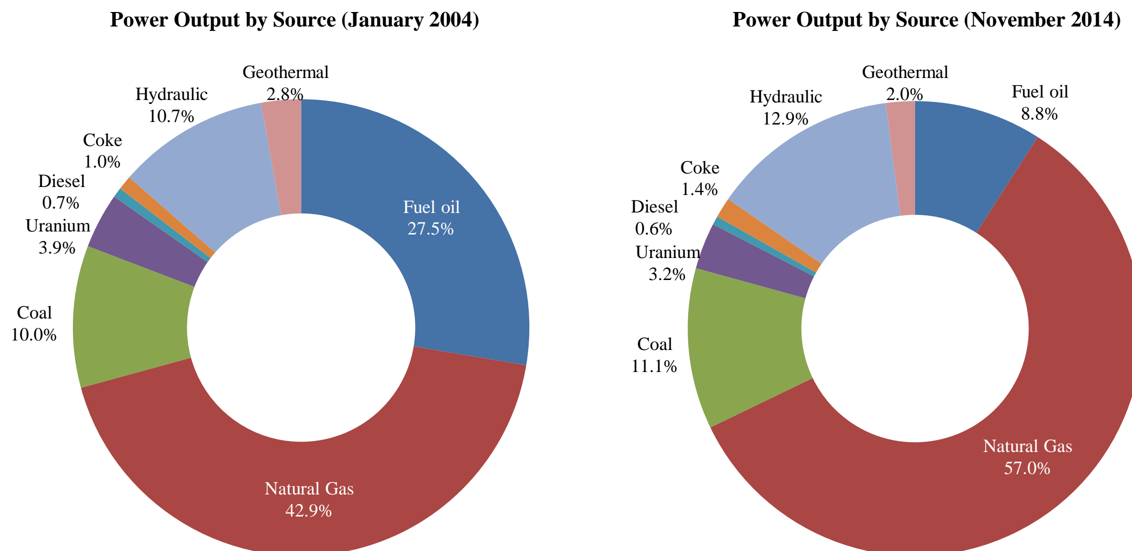
The opening of the market to IPPs has brought more efficient technology to Mexico. For example, it greatly increased the use of natural-gas-fired combined-cycle technology. Combined-cycle technology, which generates electricity and steam and is significantly more efficient than simple-cycle turbines, has had a significant effect on the Mexican market, which until then had to rely heavily on outdated power plants, many of which used fuel oil as a production input as opposed to natural gas.

IPPs operate under long-term build-own-operate contracts. A majority of IPPs receive their natural gas supply from the Mexican Federal Electricity Commission under a long-term contract that matches their operating term. Winning bidders in the public auctions for the award of these contracts must secure all the requisite permits, including a construction and operating permit from the Mexican Energy Regulatory Commission.

Between 2013 and 2014 private companies increased their aggregate installed capacity by 2.9%, to 26,091.1 MW, of which 14,149.4 MW were attributable to IPPs.

In 2014 Mexico's total electricity output, including the electricity generated by permit holders, was 301,462.0 Gigawatt hours, or GWh, of which 85.6% was attributable to the public sector. Over the past ten years, the generation of electricity from fossil fuels such as coal, natural gas and fuel oil, among others, has decreased by 3%, to 82.1% of Mexico's total output, while electricity from non-fossil fuels accounts for the remaining 17.9% The shift to combined-cycle technology has also reduced the use of fuel oil in Mexico for electricity generation purposes. Between 2004 and 2014, Mexico’s annual fuel oil consumption decreased significantly, from 27.5% to 8.8%.

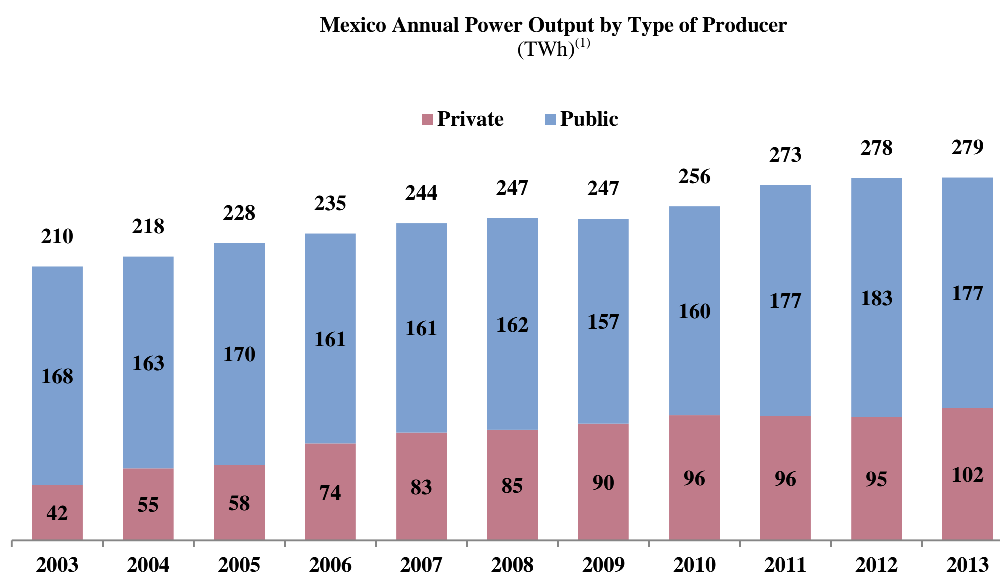
The following charts illustrate the Mexican Federal Electricity Commission’s power output by type of technology in January 2004 and November 2014.



Source: Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2015-2029.*

As shown in the charts above, fuel oil usage has decreased while natural gas has increased significantly as the primary source of fuel for power generation. The following chat illustrates the evolution of IPP participation in Mexico's total power generation since 2002.

Mexico Annual Power Output by Type of Producer
(TWh)(1)



(1) Terawatt hours. One Terawatt hour is equal to 1,000 Gigawatt hours or 1,000,000 Megawatt hours.
Source: Energy Information System.

The share of Mexico's aggregate annual power generation attributable to IPPs increased from approximately 20% in 2003 to 37% in 2013. During the same period, the share of the Mexican Federal Electricity Commission's total power generation attributable to IPPs tripled in relative terms.

Until the most recent reform of the legal framework for the regulation of the Mexican energy sector, in addition to participation in the industry under the IPP program private companies could engage in cogeneration, import, export and small production (i.e., less than 30 MW for sale to the Mexican Federal Electricity Commission or for export) projects. All power generation projects require a permit from the Mexican Energy Regulatory Commission. The following table shows the total capacity, output and investment of the projects currently in operation under permits awarded since the 1992 reform:

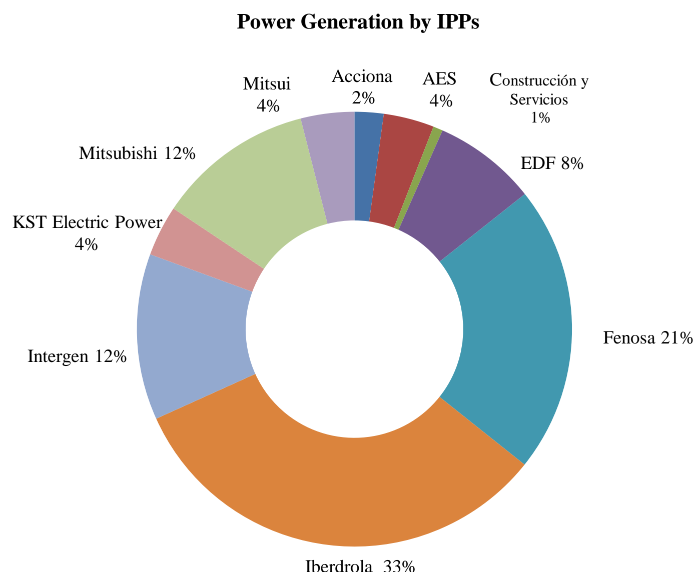
Generation Projects Authorized by the Mexican Energy Regulatory Commission as of January 2015

Type of Permit	Capacity (MW)	Output (GWh)	Investment (in millions of U.S. dollars)
IPPs	15,494	112,325	$ 16,312
Self-supply	18,219	82,524	31,690
Cogeneration	6,678	44,923	6,798
Export	1,880	13,350	2,388
Import	872	6,833	18
Small production	6,849	18,387	21,587
Own use	512	1,535	601
Total	**50,504**	**279,877**	**$ 79,394**

Source: Mexican Energy Regulatory Commission, as of May 31, 2015.
Note: The committed investment and capacity figures for IPPs in the table above are lower than the actual figures given the expansion of some of their power plants.

Current market shares for privately-owned power plants are shown in the chart below. The top two players account for 61% of the total power generation market.

Power Generation by IPPs



Source: Mexican Energy Ministry, *Power Market Outlook 2015-2029.* Based on installed capacity as measured in terms of MW. Includes solely the electricity generated by IPPs.

Renewables

For the past several years Mexico has been engaged in an effort to foster the use of non-fossil fuels and develop a more diversified power matrix. In October 2008 the Mexican Congress approved a legal reform of the Mexican energy sector that included the enactment of the Mexican Law on Renewable Energies and the Financing of the Energy Transition (*Ley para el Aprovechamiento de las Energías Renovables y el Financiamiento de la Transición Energética*), which is aimed at fostering and regulating the development and use of renewable energy sources and clean technologies to generate electricity. In the long run, the use of renewable energy sources has the potential for helping balance Mexico's energy portfolio and reducing the country's reliance on commodities exposed to significant price volatility. Furthermore, to the extent of the Mexican government's success at implementing the requisite regulatory framework and incentives, the above may also translate into new investment opportunities.

Mexico has a broad array of renewable energy sources, including wind, solar, geothermal and hydroelectric power. Wind and solar resources are particularly abundant. The Mexican Wind Power Association (*Asociación Mexicana de Energía Eólica, A.C.*) estimates that Mexico has the potential for producing 30 GW of wind power, including 21 GW in regions with capacity factors in excess of 30% and 16 GW in regions with capacity factors ranging from 35% to 45%. The most promising regions are located in northern and central Mexico, the State of Oaxaca and along the coasts of Yucatan and the Gulf of Mexico.

Mexico has a significant potential for taking advantage of its renewable energy sources. According to the Mexican Inventory of Renewable Energy Resources (*Inventario Nacional de Energías Renovables*), Mexico has proven and probable potential for the generation of 100,278 GWh per year, or 33% of the 301,462 GW produced in 2014.

In 2014 Mexico's renewable energy production totaled 55,002 GWh, which accounted for 18.2% of Mexico's installed capacity.

While private companies have been allowed to participate in the Mexican renewable energies market since the 1992 reform of the Mexican energy sector, renewable energy growth has stalled in comparison with that of fossil fuels partly as a result of the lack of a comprehensive framework for addressing obstacles such as the complex land use permitting process, the absence of an adequate transmission infrastructure and the cost advantages that kept the Mexican Federal Electricity Commission from paying higher purchase prices for electricity.

In connection with the enactment of the Mexican Law on Renewable Energies and the Financing of the Energy Transition in 2008, and its June 2011 amendment, the Mexican government set the goal that by 2025 at least 35% of Mexico's power generation capacity will be based on renewable energy sources.

In 2012 the Mexican Senate approved the Mexican Law on Climate Change (*Ley General de Cambio Climático*), which provides that by 2024 at least 35% of Mexico's electricity output must derive from sources other than fossil fuels (including natural gas). As a result, Mexico became second only to the United Kingdom among the countries that have adopted mandatory policies on climate change. Private companies that are well positioned to capitalize on these trends should be able to achieve significant growth as Mexico's electricity requirements continue to grow and the country moves toward the adoption of clean technology standards.

The December 2015 enactment of the Mexican Law on the Energy Transition (*Ley de Transición Energética*) further strengthened Mexico's commitment with increasing its use of renewable energy sources to 35% by 2024, by imposing on producers and distributors mandatory, intermediate goals of 25% in 2018 and 20% in 2021 or requiring that they purchase clean energy certificates.

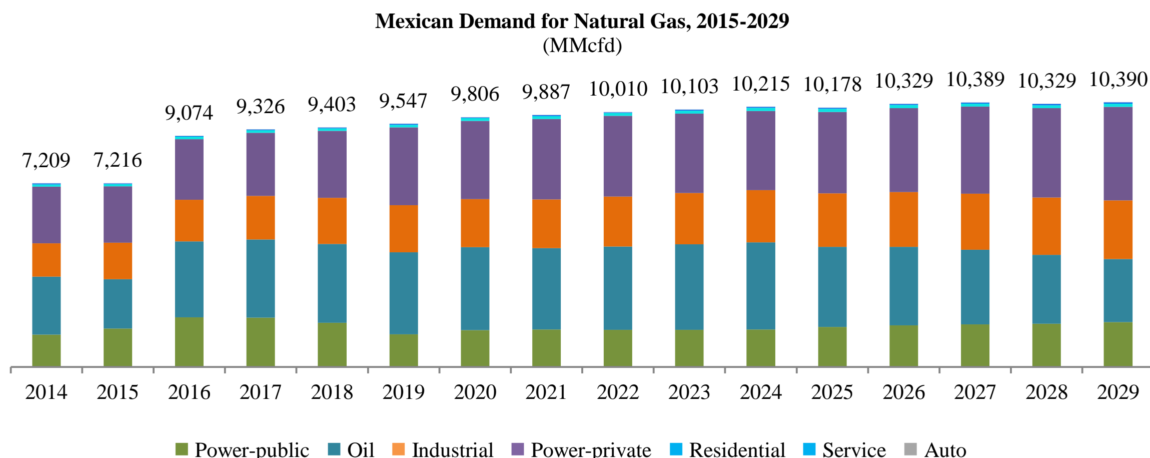
Participants in the Mexican electricity market will be subject to certain clean energy obligations. Clean energy producers will be issued clean energy certificates. A power producer will be issued a clean energy certificate for each MWh produced at a clean energy facility. The Mexican Energy Ministry has indicated that by 2018 producers will be required to hold clean energy certificates accounting for 5% of their annual MW usage.

Natural Gas & Power Growth in Mexico

According to the Mexican Population Council (*Consejo Nacional de Población*), Mexico's population is expected to grow by 11.3% or 13.6 million people between 2015 and 2027. While this projected growth is less than half the 23.2% growth in population experienced by Mexico between 1995 and 2010, it nonetheless suggests a continuing increase in the demand for electricity over the years to come. Furthermore, we believe that Mexico's current energy infrastructure will remain insufficient to satisfy the country's needs, particularly in its central region, which is experiencing a rapid population growth and will likely require an expansion of the existing natural gas pipelines and power generation facilities.

According to the Mexican Energy Ministry, over the next 13 years the demand for natural gas in Mexico is expected to increase by 44.1%, from 7,209.3 MMcfd in 2014 to 10,390.3 MMcfd in 2029, which represents an average annual growth rate of 2.5%, while the demand for electricity will increase by 66%, to 498 TWh. The following charts illustrate the expected increase in demand for natural gas and electricity in Mexico. Based on Mexico's expected economic performance and population growth, it is estimated that between 2015 and 2029 Mexico's GDP will grow at an annual average growth rate of approximately 4.0%, while demand for electricity will grow at an annual average growth rate of 3.5%.

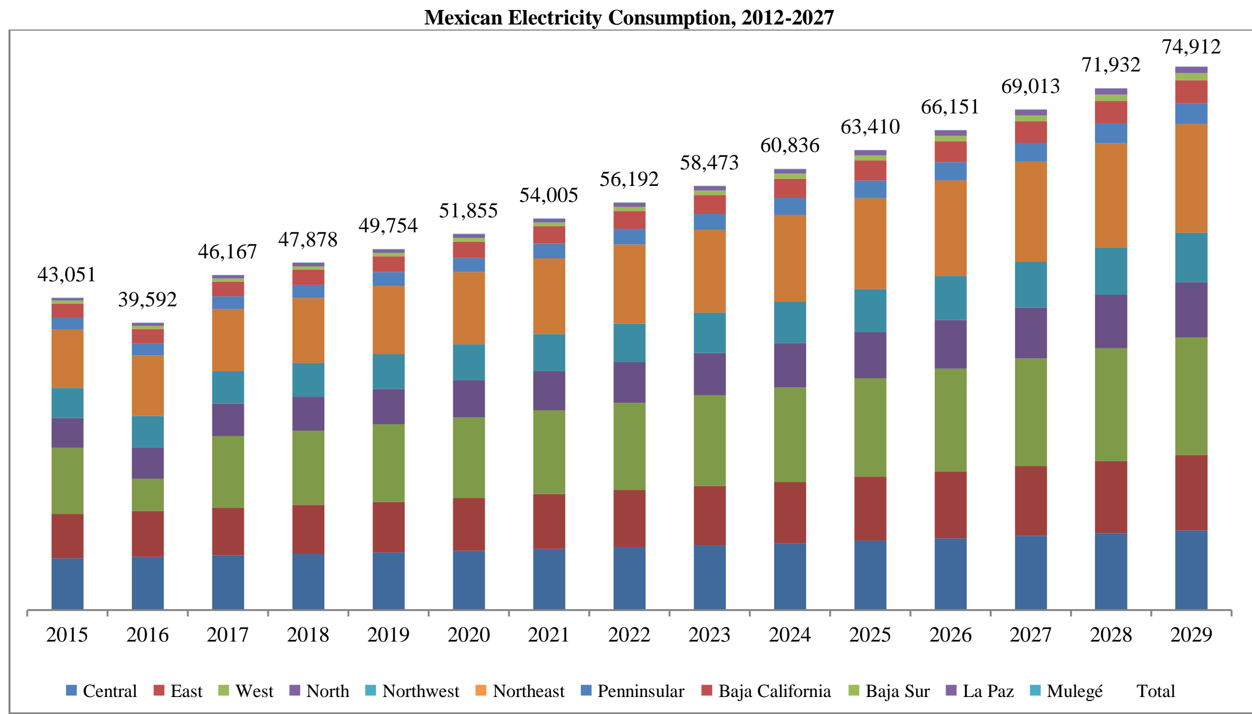
Mexican Demand for Natural Gas, 2015-2029
(MMcfd)



Source: Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2015-2029.*

In turn, the demand for electricity from Mexico's National Power System is expected to grow by 3.8% during the period from 2014 to 2019, from 280.1 TWh to 471.6 TWh. Mexico expects to satisfy the future demand for electricity in the country, particularly during the aforementioned period, using a significantly larger volume of renewable sources in relative terms than it does at present.

Mexican Electricity Consumption, 2012-2027



Source: Mexican Energy Ministry, *Power Market Outlook 2015-2029.*

Growing demand already represents a challenge to Mexico. We believe that new pipeline infrastructure and/or new or expanded natural gas import capabilities are imperative for Mexico's short and medium-term economic development, which should ultimately result in opportunities for companies in our industry. This should be further aided by the recent creation of the Mexican Center for the Control of Natural Gas, which is responsible for operating Mexico's pipelines system and ensuring that permit holders comply with their open access obligations. In 2011 and 2014 the Mexican Federal Electricity Commission awarded to private companies the construction of the following systems:

- Morelos pipeline with a capacity of 320 MMcfd (3.3 MMThd), which will run through the states of Tlaxcala, Puebla and Morelos;

- Chihuahua pipeline with a capacity of 850 MMcfd (8.7 MMThd), which will run from the Mexico–U.S. border to El Encino, Chihuahua; and

- Tamazunchale pipeline with a capacity of 630 MMcfd (6.5 MMThd), which will run from Tamazunchale, San Luis Potosí, to El Sauz, Querétaro.

In addition, in order to meet the increasing demand for natural gas and foster the ongoing development of the natural gas transportation industry, between 2013 and 2015 the Mexican Federal Electricity Commission awarded six additional contracts for the construction of natural gas pipeline transportation projects in northern Mexico:

- Sásabe–Puerto Libertad–Guaymas pipeline, with a capacity of 770 MMcfd (8.0 MMThd), in the State of Sonora;
- Guaymas–El Oro pipeline, with a capacity of 510 MMcfd (5.3 MMThd), which will run through the states of Sonora and Sinaloa;
- El Oro–Mazatlán pipeline with a capacity of 200 MMcfd (2.1 MMThd), which will run through the states of Sonora and Sinaloa;
- El Encino–Topolobampo pipeline with a capacity of 450 MMcfd (4.7 MMThd), which will run through the states of Chihuahua and Sinaloa;
- Ojinaga–El Encino pipeline with a capacity of 1,350 MMcfd, in the State of Chihuahua, which will interconnect with the El Encino–Topolobampo and El Encino–La Laguna pipelines;
- El Encino–Laguna pipeline with a capacity of 1,500 MMcfd, which will run through the states of Chihuahua and Durango and will interconnect with the Ojinaga–El Encino pipeline;
- San Isidro–Samalayuca pipeline with a capacity of 1,135 MMcfd (11.8 MMThd), in the State of Chihuahua; and
- Samalayuca–Sásabe pipeline with a capacity of 472 MMcfd (4.9 MMThd), which will run through the states of Chihuahua and Sonora.

In October 2012 the Mexican Federal Electricity Commission awarded to us two long-term natural gas transportation service agreements in connection with the Sásabe–Puerto Libertad–Guaymas pipeline and the Guaymas–El Oro pipeline. We have completed the construction of and have begun deriving revenues from the Sásabe – Guaymas segment of the Sonora pipeline. In this report we refer to these interconnected projects as the Sonora pipeline.

In December 2012 Gasoductos de Chihuahua entered into an agreement with Pemex TRI for the construction and operation of an approximately 224 km ethane pipeline with a design capacity of approximately 151.9 MMcfd (2.7 MMThd), to transport ethane from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz, to the Ethilene XXI project in the State of Veracruz. The first segment of this system began operations in the first quarter of 2015.

In July 2013 Gasoductos de Chihuahua entered into a 25-year, natural gas firm transportation services agreement with Pemex TRI. This agreement accounts for the full capacity of the Los Ramones I pipeline, which is comprised of approximately 114 km of 48-inch pipeline and two compression stations. We have completed the construction of this pipeline, which began commercial operation in December 2014.

In October 2013 Pemex announced the development of the Los Ramones II pipeline, which is comprised of two segments: Los Ramones Norte and Los Ramones Sur. The Los Ramones Norte pipeline, which is approximately 452 km in length, is a natural gas transportation system that includes two compression stations. In March 2014, Gasoductos de Chihuahua agreed to develop the Los Ramones Norte pipeline through our TAG Norte joint venture, in which Gasoductos de Chihuahua holds a non-controlling interest. TAG Norte has entered into a 25-year, natural gas firm transportation services agreement with Pemex TRI. This agreement accounts for the full capacity of the Los Ramones Norte pipeline, which is planned to begin operations in the fourth quarter of 2015.

In December 2014 the Mexican Federal Electricity Commission awarded to us a natural gas transportation services agreement in connection with the Ojinaga–El Encino pipeline, which is scheduled to begin operations in March 2017 and will receive natural gas from the Waha basin.

In July 2015 the Mexican Federal Electricity Commission awarded to us a natural gas transportation services agreement in connection with the San Isidro–Samalayuca pipeline system, which is comprised of approximately 23 km of pipeline with a capacity of approximately 1,135 MMcfd (11.8 MMthd) and two compression stations. This system, which is planned to begin commercial operation in the first quarter of 2017, will supply natural gas to the Norte III combined-cycle power plant and will interconnect with Gasoductos de Chihuahua's system, the Tarahumara pipeline and the Samalayuca–Sásabe pipeline.

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 with regards to major projects such as natural gas pipelines, transmission lines, and power plants have hindered the development of energy infrastructure.

We anticipate 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. The administration of Mexican President Enrique Peña Nieto, who was elected in July 2012 and took office on December 1 of that same year, has announced that it will seek to increase private sector investment in Mexican energy infrastructure. In December 2013, the provisions of the Mexican Constitution relating to the Mexican energy sector were the subject matter of a substantive amendment. This constitutional amendment was followed by the enactment of several new laws and the amendment of various existing laws in August 2014, in order to establish a new legal framework for the regulation of the oil, gas and power industries in Mexico and open Mexico's resources to private investment both from Mexican and non-Mexican companies.

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 US$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 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 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 sector's midstream (storage and transportation) and downstream (retail distribution).

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 a long-term contract that matches 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 "Regulation, Permits and Environmental Matters."

Natural Gas and Power Demand Outlook

Currently, private companies operate over 62.4% of the effective capacity of Mexico's combined-cycle generation projects through IPP contracts. Together, these projects generate 23.1% of the Mexico's electricity. The opening of the market to IPPs greatly increased the uptake of natural gas-fired combined-cycle technology in Mexico. Among other factors, this shift in power generation away from fuel oil to more efficient natural gas-fired combined-cycle technology has substantially increased natural gas demand in Mexico, which has emerged as the primary source of fuel for power generation. From 1999 to 2012, natural gas demand in Mexico doubled and in 2014 was 7,209 MMcfd.[1]

According to the Mexican Energy Ministry, over the next fourteen years the demand for natural gas in Mexico is expected to grow by 44.1%, to 10,390.3 MMcfd in 2029, which represents an average annual grow rate of 2.5%, while the demand for electricity will grow by 66%, to 471.6 TWh in 2029, which represents an annual average growth rate of 3.5%.

Natural Gas Supply Outlook

While Mexico holds significant proven reserves of natural gas, its lack of a natural gas transportation infrastructure and relatively low extraction levels make it likely that Mexico will struggle to meet its growing domestic demand and will become increasingly dependent on natural gas imports, which in 2105 satisfied approximately 38% of the country's demand.[2] The increase in natural gas demand has caused Mexico's National Pipeline System, which until the recent energy reform was controlled by Pemex TRI, to become capacity constrained and at significant risk of experiencing service disruptions that may affect its ability to deliver natural gas to Mexican consumers.

[1] Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2015-2029.*
[2] *Ibidem.*

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 transportation segment, the top four players account for nearly 90% of the market. The Mexican Center for the Control of Natural Gas holds the largest share in terms of design capacity, or 35%, followed by us with 33%. In the natural gas distribution segment, Gas Natural Fenosa and GDF Suez together account for nearly 80% of the market as measured in terms of number of customers. The private power generation segment is dominated by two players, Iberdrola and Gas Natural Fenosa, which together account for 61% of the market in terms of design capacity.

Competitive Advantages

We believe the following competitive strengths distinguish us from our competitors and are critical to the continued successful execution of our strategy.

- ***Proven development capability and extensive experience operating diverse energy assets.*** With over 20 years of experience operating in Mexico, we have developed the necessary skills and relationships to successfully build, own and operate critical energy infrastructure in the country. Over this time, we have 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. We made our first investment in Mexico in 1996, when we won the first private natural gas distribution permit awarded in Mexico, and have subsequently developed our Ecogas business into a model natural gas distribution company. Our largest project to date is the investment of US$1.2 billion in our LNG terminal. We have completed the construction of and have begun deriving revenues from the Sásabe–Guaymas segment of the Sonora pipeline. In addition, the Los Ramones I pipeline, which is owned by our joint venture with Pemex TRI, began commercial operation in December 2014. Other notable projects include our approximately US$350 million investment to construct our natural gas-fired combined-cycle power plant in Mexicali, Baja California, our 2010 acquisition of US$300 million of Mexican energy infrastructure assets from El Paso Corporation, which included our joint venture with Pemex TRI, and our US$200 million investment in expanding our Rosarito pipelines system and TGN pipeline. In addition, in the past few years we completed the first segment of the Sonora pipeline for a total investment of approximately US$1.0 billion, and our joint venture with Pemex TRI completed the Los Ramones I pipeline, Los Ramones Norte pipeline, Ethane pipeline and Guadalajara LPG terminal, which represented an aggregate investment of approximately US$2.0 billion (on a 100% ownership basis).

- ***Well capitalized to explore new opportunities in the energy industry.*** As of December 31, 2015, we had debt of approximately USD$877 million and a debt to adjusted EBITDA ratio of 2.2x, providing us with flexibility to explore acquisition, growth and new project opportunities in competitive terms. We have a proven ability to access the capital markets, having raised US$408 million in the debt market in February 2013 and US$599 million in the equity market in March 2013. Furthermore, we have obtained a US$600 million credit facility which may be drawn upon to supplement the cash flows generated by our operations and meet our short-term capital needs.

- ***Cash flow stability and visibility through long-term contracts.*** We have contracted out a substantial portion of the capacity of our assets across our business segments under long-term agreements under which our customers are required to pay us regardless of whether they actually use their contracted capacity, which helps provide us with steady and predictable long-term cash flows. Substantially all of these contracts are with stable, creditworthy, private counterparties or with Mexican government-related entities and are U.S. dollar-denominated. In addition to enhancing the stability of our cash flows, these firm capacity contracts also minimize our direct exposure to commodity price risk. The current fee structure minimizes our market risk in that rates, which for some of our contracts are regulated by the Mexican Energy Regulatory Commission, are adjusted regularly to account for inflation or fluctuations in exchange rates.

- ***Broad footprint of energy assets covering wide market opportunity set.*** Our assets are diversified across the entire energy infrastructure value chain that is open to private investment in Mexico, including pipelines, LNG, natural gas distribution and power generation. Given our scale, geographic position and diverse asset base, we believe we are ideally positioned to continue to expand and build out our platform of energy infrastructure assets. Given our track record as pioneers in private energy infrastructure investment in Mexico and our relationships with key players in the industry, we are well-positioned to expand into new energy sectors as opportunities for private investment arise. In addition, as the majority of our energy infrastructure assets are located across northern Mexico, we are strategically positioned to be a key player in the growing demand for the importation and transportation of hydrocarbons across the Mexico–U.S. border.

- ***First-mover in developing Mexico's private energy infrastructure.*** We are one of the few privately held companies in Mexico that owns and operates energy infrastructure, and we were one of the first privately-held companies to become involved in the Mexican energy infrastructure market. Since the Mexican government opened the natural gas sector to private investment in 1995, we have invested approximately US$4.0 billion in energy infrastructure in the country, successfully expanding into several sectors as changes to Mexican regulations have opened up new areas to private investment. This experience as pioneers in owning and operating energy infrastructure in Mexico has helped us establish a leading position in our industry. Currently, we rank first and second among private companies in terms of market share in the LNG and pipelines markets in Mexico. We are well-positioned to act as a first-mover in new energy markets as additional opportunities arise, capitalizing on our extensive experience.

- ***Strong history of compliance and positive relationships with Mexican regulatory bodies and government-controlled businesses.*** We have worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies over the past 20 years and have developed a deep understanding of the regulatory process regarding the Mexican energy sector. We believe our cooperation and close coordination with the relevant regulatory bodies in Mexico are key strengths of our business, and we intend to continue to nurture and build upon these positive relationships. We also have long-term contractual relationships with government-controlled energy companies (Pemex and the Mexican Federal Electricity Commission), as well as permits and authorizations to develop and operate our energy assets in Mexico.

- ***Experienced management team.*** Our management team has extensive experience in the energy infrastructure sector. The members of our senior management team have an average of over 18 years of experience operating and developing assets in the Mexican energy sector. We have 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. We believe our management team is one of our principal competitive strengths relative to our industry peers.

- ***World-class parent company.*** We also benefit from the strong support of our indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale. Based in San Diego, California, Sempra Energy is a Fortune 500 company providing energy services, with revenues of approximately US$10 billion in 2015. Sempra Energy companies employ nearly 17,000 people and provide energy-related products and services to more than 32 million consumers worldwide. Through our relationship with Sempra Energy, we expect 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. We believe this access should, among other things, continue to maximize the operational and financial performance of our assets and enhance the efficiency of our current operations as well as our growth and expansion projects.

Business Overview by Industry Segment Gas Segment

Our gas segment includes (1) our pipelines business, which owns and operates systems for receiving, transporting, storing and delivering natural gas and LPG (and which includes our interest in our joint venture with Pemex TRI), (2) our 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) our natural gas distribution business, which distributes natural gas to more than 113,000 residential, commercial and industrial customers in northern Mexico. A more detailed description of each of the businesses within our gas segment follows.

Pipelines Business

Overview

Our pipelines business owns and operates systems for receiving, transporting, storing and delivering natural gas, LPG and ethane, including more than 2,500 km of natural gas pipelines (of which approximately 1,025 km were under construction as of December 2015), 190 km of LPG pipelines, 224 km of ethane pipelines, eight natural gas compression stations with an aggregate of over 480,000 horsepower, and an 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara. Our natural gas pipelines have an aggregate design capacity of over 11,000 MMcfd (114.4 MMThd) and our LPG pipeline has a design capacity of 34,000 Bbld (1.9 MMThd). Our current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station, as well as the Sonora pipeline, Ojinaga–El Encino pipeline and San Isidro–Samalayuca pipeline that are currently under construction. Our pipeline assets also include the assets owned by our joint venture with Pemex TRI, in which we hold a 50% interest. Our joint venture with Pemex TRI owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Los Ramones I pipeline, Los Ramones Norte pipeline, Ethane pipeline, Gloria a Dios compression station and Guadalajara LPG terminal.

Most of our pipelines and compression stations have entered into long-term firm transportation and/or compression services agreements with major industry participants such as Shell, Gazprom, InterGen, TransCanada, the Mexican Federal Electricity Commission, the Mexican Center for the Control of Natural Gas, the Mexican Federal Electricity Commission and Pemex TRI.

The following table contains a summary of the principal characteristics of our pipeline business assets, including the assets of our joint venture with Pemex TRI, in which we hold a 50% interest, as of December 31, 2015.

Assets	Ownership Interest	Length of Pipelines (km)	Design Capacity (MMcfd)	% of Capacity Under Long-Term Contract[(1)(2)]	Available Compression (Horsepower)	Commercial Operation Date
Natural Gas Systems						
Rosarito pipeline system	100%	302[(3)]	1,434[(3)]	88%	30,000	Aug. 2002[(4)]
TGN pipeline	100%	45	940	100%	8,000	Jun. 2000[(5)]
Aguaprieta pipeline	100%	13	200	25%	N/A	Nov. 2002
Naco compression station	100%	N/A	90	100%	14,340	Sep. 2001
Sonora pipeline	100%	835	770/510	100%	32,000	Dec. 2014, 2016[(6)]
San Fernando pipeline	50%	114	1,460	100%	95,670	Nov. 2003
Samalayuca pipeline[(7)]	50%	37	400	50%	N/A	Dec. 1997
Gloria a Dios compression station[(7)]	50%	N/A	60	100%	14,300	Oct. 2001
Los Ramones I pipeline[(7)]	50%	116	2,100	100%	123,000	Dec. 2014[(8)]
LPG systems						
TDF LPG pipeline[(7)]	50%	190	34,000 bld /40,000 bl[(9)]	100%	N/A	Dec. 2007
Ethane transportation						
Ethane pipeline[(7)]	50%	224	33/100/106	100%	N/A	2015
LPG storage						
Guadalajara LPG terminal[(7)]	50%	N/A	80,000 Bbl[(9)]	100%	N/A	Dec. 2013

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

(2) Reflects the percentage of contracted capacity which, depending on the contract, may be expressed in volume or by a heating value (such as British thermal units). While we sometimes present capacity and contract amounts in this offering circular in both volume and heating value amounts for ease of comparison across our businesses, due to small differences that arise in converting these numbers some figures in this document may not match exactly the percentage of capacity under contract.

(3) The Rosarito pipelines system is comprised of three interconnected segments of different lengths, diameters and capacity, which are described below. The length provided in the table represents the arithmetic sum of the lengths of the three separate segments of which the system is comprised and does not include any additional capacity obtained through compression.

(4) The Rosarito pipeline system includes the Algodones compression station, the Rosarito Mainline, the LNG Spur and the Yuma Lateral, which began commercial operation between 2002 and 2010.

(5) The Baja West pipeline includes an expansion that began commercial operations in February 2008.

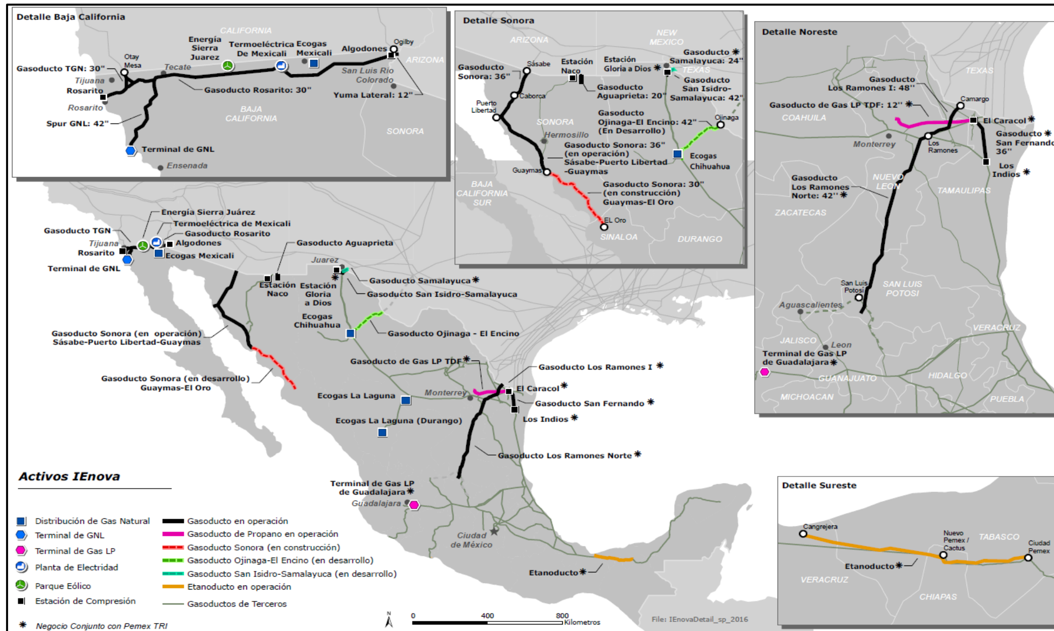
(6) The Sonora pipeline system is comprised of two interconnected segments of different lengths, diameters and capacity, which are described below. The first or Sásabe–Puerto Libertad–Guaymas segment began commercial operation in the fourth quarter of 2014 and the third quarter of 2015. The second or Guaymas–El Oro segment is currently under construction and is scheduled to commence operations in 2016.

(7) Owned by our joint venture with Pemex TRI, in which we hold a 50% interest. We do not consolidate our joint venture with Pemex TRI and account for this entity in our financial statements using the equity method.

(8) The Los Ramones I pipeline began commercial operation in December 2014.

(9) LPG Bbl/Bbld. The TDF LPG pipeline's 34,000 Bbld capacity figure relates to the transportation system and the 40,000 Bbl capacity relates to the delivery facility located at the west end of the transportation system.

The following map shows the location of our principal assets:



<u>Firm Transportation Service Agreements</u>

We have entered into long-term firm transportation services agreements with various customers with respect to all of our pipelines, which are the key revenue generating contracts for our pipelines business. Pursuant to these contracts we are obligated to provide to our customers, and our customers are required to pay us 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 we provide. The fixed reservation component of these fees account for the substantial majority of our revenue under these agreements, and must be paid by our 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 Mexican Energy Regulatory Commission to be charged to parties generally. The Mexican Energy Regulatory Commission 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 Mexican Energy Regulatory Commission, the fee is adjusted annually to account for inflation and changes in the Mexican peso–U.S. dollar exchange rate in accordance with the Prices and Tariffs Directive (*Directiva de Precios y Tarifas*) established by the Mexican Energy Regulatory Commission.

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

<u>Our Pipelines Operating Assets</u>

Rosarito pipeline system

Our Rosarito pipelines system in Baja California is comprised of three pipelines of approximately 302 km in aggregate length, as well as a 30,000 horsepower compression station. 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 our LNG

terminal south of the city of Tijuana. The system's bi-directional capability allows us to use natural gas supplies from either the U.S. domestic natural gas market or from our 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 is comprised of a 30-inch diameter pipeline with a length of approximately 225 km, with a capacity of 534 MMcfd (5.6 MMThd).

- *LNG Spur.* This system was completed in 2008 and delivers regasified LNG from our 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 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 also includes our 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.

We have entered into 10 firm transportation services agreements with the Rosarito pipeline system's customers, which have 88% of the system's installed capacity (including compression) contracted on a fixed-capacity basis. 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]
Shell	Transportation of natural gas from our 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	1,396 MMcfd (maximum daily quantity)
IEnova LNG (a subsidiary of ours)[2]	Transportation of natural gas from our LNG terminal to the interconnection point of the LNG Spur and the Rosarito Mainline in Tecate, Baja California.	May 1, 2008	20 years	1,260 MMcfd (maximum daily quantity)
Gazprom	Transportation of natural gas from our 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	204 MMcfd (maximum daily quantity)
IEnova LNG (a subsidiary of ours)[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 our TGN pipeline near Tijuana, Baja California.	April 1, 2014[4]	20 years	385 MMcfd (maximum daily quantity)
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	130 MMcfd (maximum daily quantity)
Termoeléctrica de Mexicali (a subsidiary of ours)[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 our Termoeléctrica de Mexicali power plant.	February 26, 2002	20 years	101 MMcfd (maximum daily quantity)

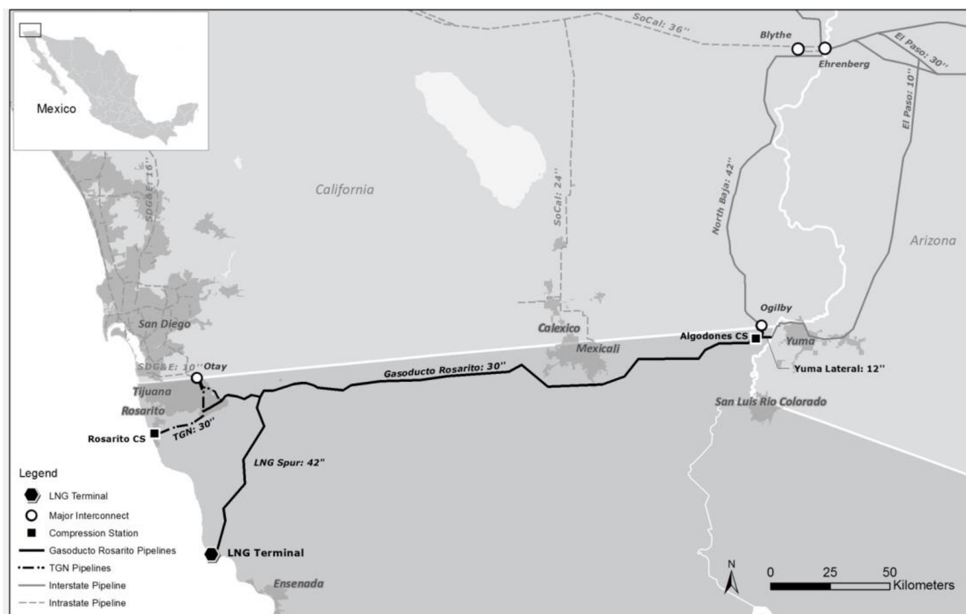
(1) In certain cases, the contracted capacity presented in this table may exceed the system's design capacity due to connection or other limitations in the different components of the Rosarito pipelines system.

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

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

(4) The original date of execution of this agreement is February 15, 2002. It was last amended on April 1, 2014.

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



TGN Pipeline

Our TGN pipeline transports natural gas to the Presidente Juárez power plant owned by the Mexican Federal Electricity Commission, to industrial customers in the areas of Tijuana and Rosarito, Baja California and to our 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 our Rosarito pipelines system in the Tijuana area and extends north to interconnect with our affiliate SAG&E's system at the Mexico–U.S. border in Otay Mesa and southwest to the Mexican Federal Electricity Commission's 1,300 MW Presidente Juárez power plant in Rosarito, Baja California. This pipeline system includes our 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 have the full amount of the system's design capacity contracted 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)
IEnova LNG (a subsidiary of ours)(1)	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SAG&E's pipeline system in Otay Mesa, California and an interconnection point with the Presidente Juárez power plant in Rosarito, Baja California.	May 01, 2008	20 years	519 MMcfd (maximum daily quantity)
Shell	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SAG&E's pipeline system in Otay Mesa, California.	June 19, 2008	20 years	385 MMcfd (maximum daily quantity)

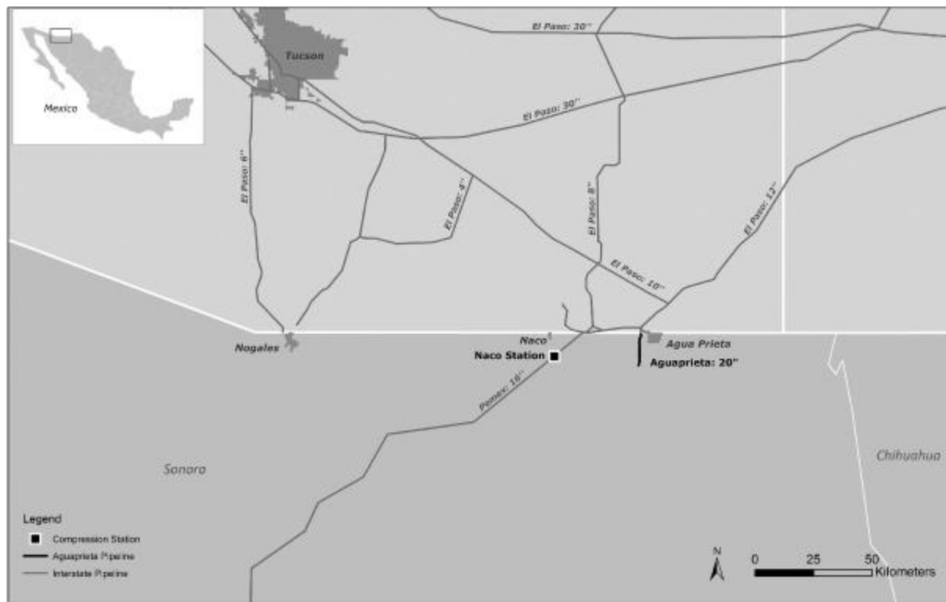
(1) Our indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova LNG's obligations under this contract in the amount of US$45.6 million. IEnova LNG currently utilizes its contracted capacity to transport natural gas it provides to the Mexican Federal Electricity Commission's 1,300 MW Presidente Juárez power plant. In addition, under the contract with the Mexican Federal Electricity Commission, IEnova LNG 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

Our 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 Mexican Federal Electricity Commission. 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 main transportation services agreement for this pipeline is for 48 MMcfd (0.5 MMThd) of aggregate maximum daily quantity, or 25% of the system's design capacity contracted on a firm basis for a 25-year period as of November 20, 2002. This agreement includes a rate that will allow us to recover the entire cost of this pipeline. In September 2013 we entered into a two-year firm transportation services agreement for 67 MMcfd (0.7 MMThd) with the Mexican Federal Electricity Commission, which is subject to renewal on an annual basis. In addition, in October 2013 we entered into a six-year firm transportation services agreement for 2 MMcfd (0.3 MMThd) with El Paso Marketing. This pipeline system was built in anticipation of two additional power plants that the Mexican Federal Electricity Commission intended to construct in the same area. One of these power plants, Agua Prieta II, which is currently under construction and is expected to begin commercial operation in the third quarter of 2016, represents a potential additional source of revenues for this system once completed.

The following map shows the route of the Aguaprieta pipeline and the location of the Naco compression station:



Naco Compression Station

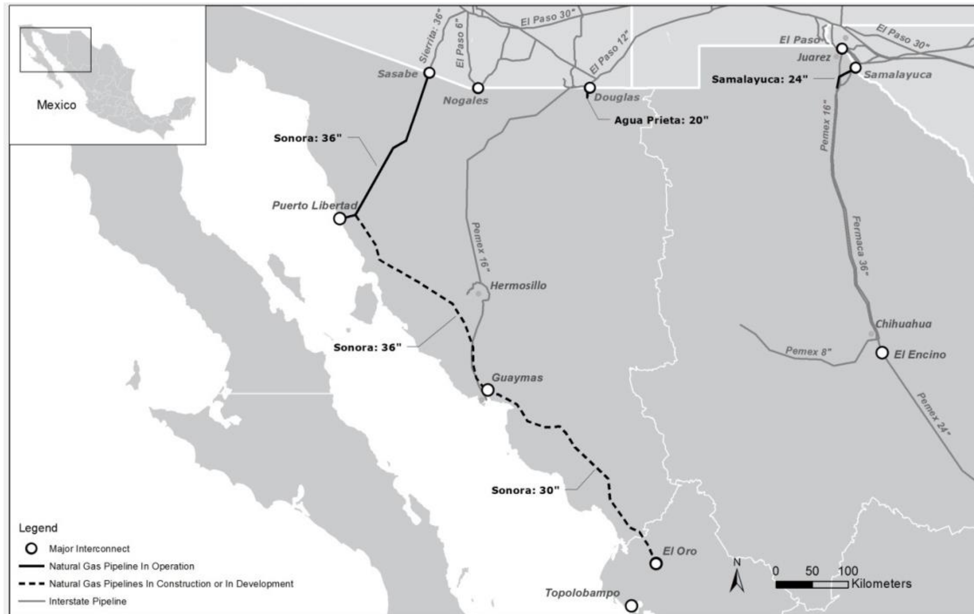
Our Naco compression station consists of a 14,340 horsepower compressor installed on Pemex TRI's Naco–Hermosillo natural gas pipeline in Naco, Sonora. We have in place a compression services agreement with Pemex TRI under which Pemex TRI has 90 MMcfd (0.9 MMThd) of compression services or 100% of the system's design capacity contracted on a firm basis until 2021. Pemex TRI pays us 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

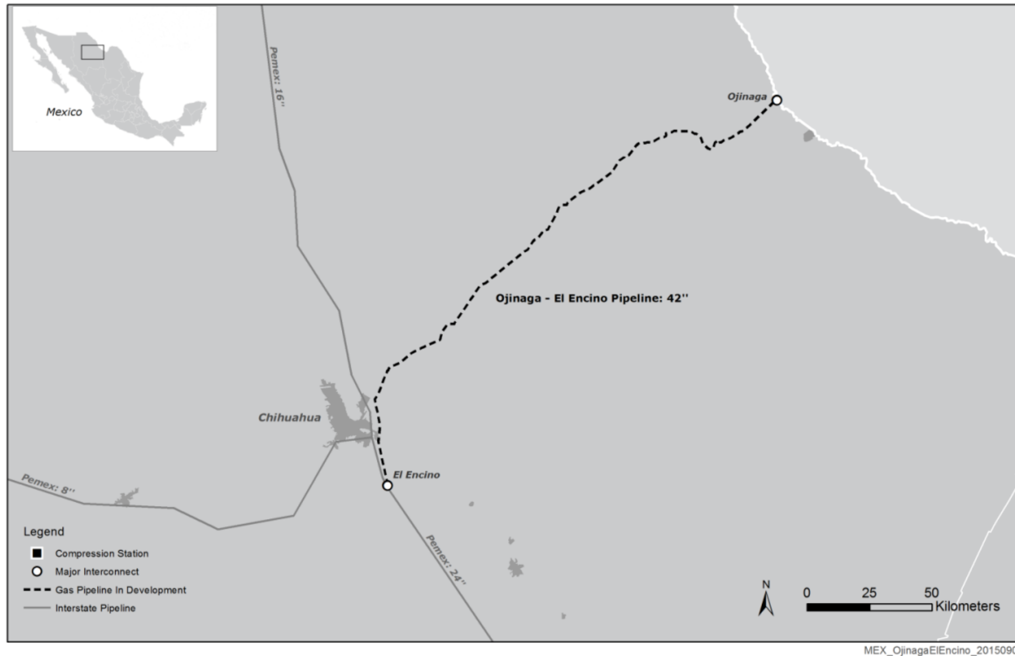
In October and November 2012 we entered into two natural gas transportation service agreements with the Mexican Federal Electricity Commission. In connection with these agreements, we are building the Sonora pipeline in the states of Sonora and Sinaloa, which will be approximately 835 in length. This 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). We have completed the construction of and have begun deriving revenues from the Sásabe–Puerto Libertad–Guaymas segment. The second or Guaymas–El Oro segment is currently under construction and is scheduled to commence operations in 2016. The Mexican Federal Electricity Commission will be the sole customer of this system under a 25-year firm transportation services agreement.

The following map shows the location of this system:



Ojinaga–El Encino Pipeline

In December 2014 we entered into a firm transportation services agreement with the Mexican Federal Electricity Commission, which provides 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 Mexican Federal Electricity Commission will be the sole customer of this system under a 25-year firm transportation services agreement. The system is scheduled to commence operations in the first half of 2017. The following map shows the location of the Ojinaga–El Encino pipeline:



San Isidro–Samalayuca Pipeline

In July 2015 we entered into a 25-year firm transportation services agreement with the Mexican Federal Electricity Commission, which provides for the construction and operation of a pipeline with an approximate length of 23 km and an installed capacity of 1,135 MMcfd (11.8 MMThd), a 46,000 horsepower compression station and a distribution manifold with a capacity of 3,000 MMcfd (31.2 MMThd), which will serve as an interconnection point with other pipeline systems. The Mexican Federal Electricity Commission will be the sole customer of this system under the firm transportation services agreement. The system, located in Ciudad Juárez, Chihuahua, is scheduled to begin operations in the first half of 2017. The following map shows the route of the San Isidro–Samalayuca pipeline:

Joint Venture with Pemex TRI

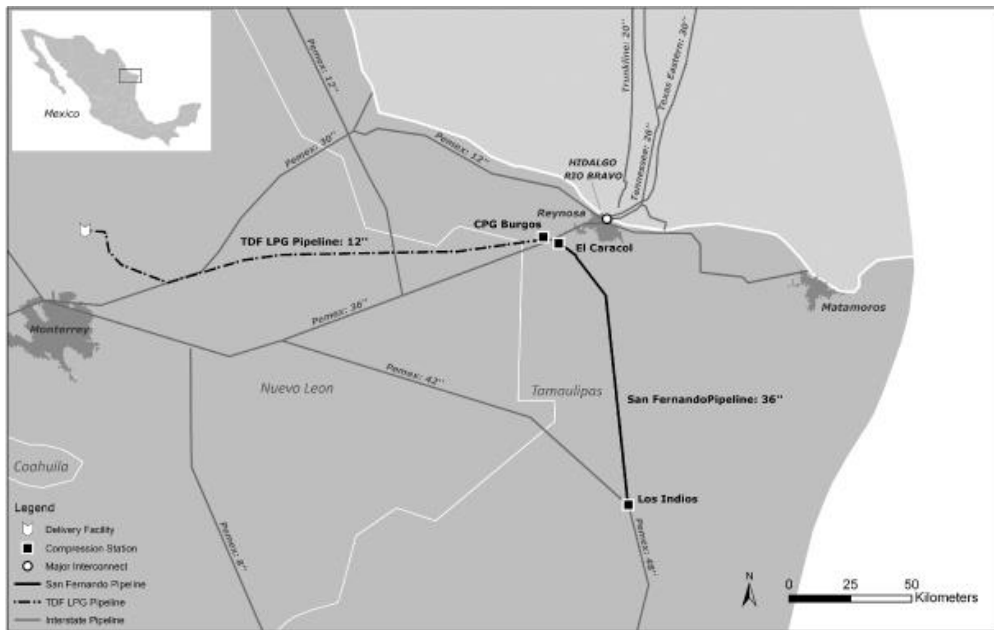
We hold a 50% interest in our joint venture with Pemex TRI, which owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Los Ramones I pipeline, Ethane pipeline, Gloria a Dios compression station and Guadalajara LPG terminal. Our joint venture with Pemex TRI also holds an interest in TAG Norte, which owns the Los Ramones Norte pipeline. We acquired our interest in this joint venture from El Paso Corporation in April 2010.

San Fernando pipeline

This fully bi-directional system consists of a 36-inch diameter pipeline with an approximate length of 114 km and two compression stations with a total of 95,670 horsepower. It has a transportation capacity of 1,000 MMcfd (10.4 MMThd), or 1,460 MMcfd (15.2 MMThd) including the capacity from compression. The pipeline runs from our El Caracol compression station in Reynosa, Tamaulipas to our Los Indios compression station in San Fernando, Tamaulipas. This system provides increased capacity and reliability to Pemex TRI's natural gas system. The San Fernando pipeline is operated by Pemex TRI pursuant to an operation and maintenance agreement with Gasoductos de Chihuahua. Effective January 1, 2016, Pemex TRI assigned its transportation services agreement with the San Fernando pipeline to the Mexican Center for the Control of Natural Gas.

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

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



Samalayuca pipeline

The Samalayuca pipeline is a 24-inch diameter pipeline with an approximate length of 37 km with a capacity of 400 MMcfd (4.2 MMThd). The Samalayuca pipeline, which began operations in 1997, was the first privately-owned natural gas pipeline in Mexico. The pipeline runs 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 belongs to Pemex TRI, which runs from Ciudad Juárez to Chihuahua. The Samalayuca pipeline is operated by Pemex TRI pursuant to an operation and maintenance agreement with Gasoductos de Chihuahua.

The customers of the Samalayuca pipeline have 140 MMcfd (1.5 MMThd) contracted on a firm basis. The following table contains a summary of the principal terms of the firm transportation services agreements with the Samalayuca pipeline's customers:

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	Per year	40 MMcfd (maximum daily quantity)
Mexican Federal Electricity Commission	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 Mexican Federal Electricity Commission's Samalayuca I, Samalayuca II and Chihuahua III pipeline systems.	December 11, 2009	Per year	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

This 14,300 horsepower compression station is installed at the interconnection point of the Samalayuca pipeline and the Ciudad Juárez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua that belongs to Pemex TRI. We have contracted out 100% of the 60 MMcfd (0.6 MMThd) capacity of this compression station on a firm basis pursuant to a transportation and compression services agreement with the Mexican Federal Electricity Commission. The Mexican Federal Electricity Commission pays for these services based on a rate established by the Mexican Energy Regulatory Commission.

Under 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 and delivers the compressed gas to the Gloria a Dios interconnection of the Samalayuca pipeline and Pemex TRI's pipeline system.

This agreement, which was executed in November 2011, has an initial term of 20 years and may be extended for an additional five years at the Mexican Federal Electricity Commission's option.

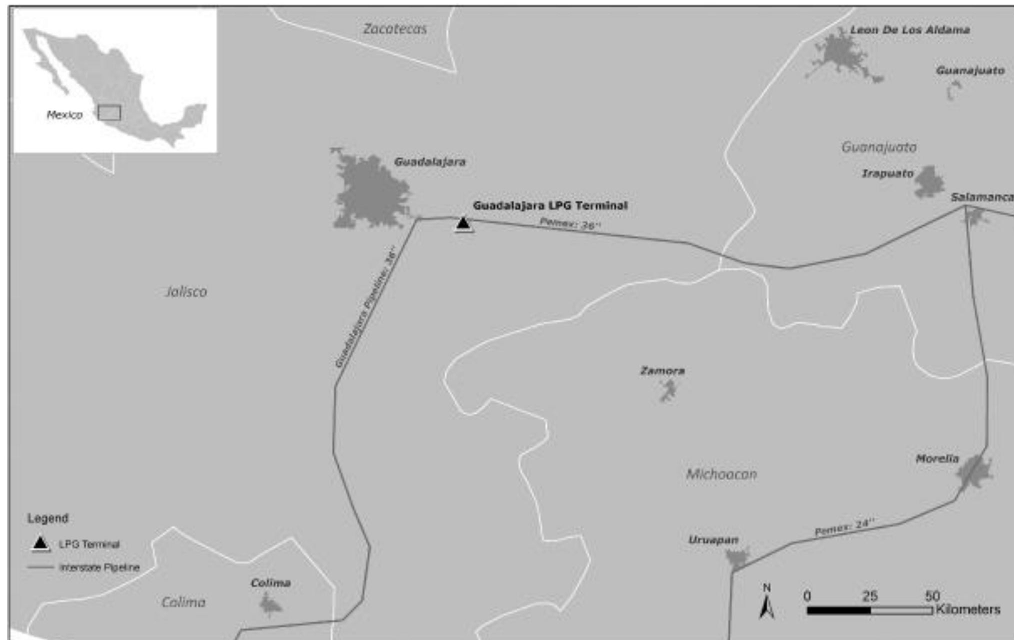
TDF LPG Pipeline

The TDF LPG pipeline is a system comprised of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Bbld (1.9 MMThd) 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 Bbl (2.2 MMTh). The TDF LPG 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 Monterrey, Nuevo León. The TDF LPG pipeline is operated by Pemex TRI pursuant to an operation and maintenance agreement with Gasoductos de Chihuahua. Pemex TRI, which is the TDF pipeline's sole customer, has 30,000 Bbld (1.6 MMThd) of aggregate average daily quantity contracted on a firm basis pursuant to a firm transportation services agreement. This agreement expires in 2027 but can be renewed for an additional five-year period at Pemex TRI's option.

Guadalajara LPG terminal

Through our joint venture with Pemex TRI we own an 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara, Jalisco. This facility consists of four storage spheres, 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. This facility, which was completed in December 2013, replaced an LPG storage facility owned by Pemex Gas within Guadalajara. The Guadalajara LPG terminal is operated by Pemex TRI and serves the Jalisco market. Gasoductos de Chihuahua has in place a 15-year LPG storage services agreement with Pemex TRI, pursuant to which Gasoductos de Chihuahua provides storage services to Pemex TRI utilizing the full capacity of the Guadalajara LPG terminal. Under the terms of this agreement, which expires in 2028, Gasoductos de Chihuahua receives LPG from Pemex TRI at the Guadalajara LPG terminal and delivers Pemex TRI's LPG as directed by Pemex TRI, in exchange for a monthly fee which contains a fixed component that Pemex TRI is required to pay regardless of usage, and a variable fee based upon its actual monthly use of the services provided by the terminal.

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



Ethane Pipeline

Through Gasoductos de Chihuahua, in December 2012 we entered into an ethane transportation services agreement with Pemex TRI that provided for the construction and operation of an ethane pipeline of approximately 224 km in length. The Ethane pipeline system is comprised of a 20-inch pipeline segment with a transportation capacity of approximately 33 MMcfd (0.6 MMThd), a 16/24-inch pipeline segment with a transportation capacity of approximately 100 MMcfd (1.8 MMThd), and a 20-inch pipeline segment with a transportation capacity of approximately 106 MMcfd (1.9 MMThd). The Ethane pipeline transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz, to the ethylene and polyethylene polymerization plant located within the Ethylene XXI project in the State of Veracruz. The Ethane pipeline began operations in 2015. Pemex TRI is the Ethane pipeline's sole customer under a 20.5-year U.S. dollar-denominated guaranteed capacity agreement that is subject to adjustment to account for inflation. The Ethylene XXI plant is owned by Braskem Idesa.

Los Ramones I pipeline

Through Gasoductos de Chihuahua, in July 2013 we entered into a 25-year firm transportation services agreement with Pemex TRI that provided for the construction and operation of a 48-inch pipeline with an approximate length of 116 km and a design capacity of 2,100 MMcfd (21.8 MMThd), and two compression stations, to transport natural gas from northern Tamaulipas at the Mexico–U.S. border, to the interconnection points with the Los Ramones Norte pipeline and with Pemex Gas' separately-owned system in the State of Nuevo León. Pemex TRI will be the sole customer of this facility under its transportation services agreement. The Los Ramones I pipeline was completed and began commercial operation in December 2014. Effective January 1, 2016, Pemex TRI assigned its transportation services agreement with the Los Ramones I pipeline to the Mexican Center for the Control of Natural Gas.

Los Ramones Norte pipeline

Through Gasoductos de Chihuahua, in March 2014 we entered into the TAG Norte joint venture in order to build and operate the Los Ramones Norte pipeline. Gasoductos de Chihuahua holds a 50% interest in the TAG Norte joint venture. As of December 31, 2015, we had invested US$86.0 million in this project using the proceeds from four, four-year U.S. dollar-denominated loans that accrue interest at a floating rate equal to the 30-day LIBOR plus 450 basis points (4.74% as of December 2015). Each joint venture partner has a right of first refusal and a tag-along right in the event that the other partner wishes to transfer its interest to a third party.

In March 2014 the TAG Norte joint venture entered into a firm transportation services agreement with Pemex TRI, which provides for the construction and operation of a 42-inch pipeline with an approximate length of 452 km and a design capacity of 1,420 MMcfd (14.8 MMThd), and two compression stations, which interconnects with the Los Ramones I pipeline and the Los Ramones Sur pipeline in the State of San Luis Potosí. Pemex TRI is the sole customer of this system, which began commercial operation in February 2016. Effective January 1, 2016, Pemex TRI assigned its transportation services agreement with the Los Ramones Norte pipeline to the Mexican Center for the Control of Natural Gas.

Terms of Our Joint Venture Agreement with Pemex TRI

Our relationship with Pemex TRI as it relates to our joint venture with Pemex TRI is governed by the bylaws of Gasoductos de Chihuahua, the special purpose entity that was formed to hold the joint venture's assets, and the terms of a partners' agreement between us and Pemex TRI. The following is a summary of the principal terms of such bylaws and partners' agreement.

Partnership interests; voting rights. Partnership interests representing the contributed capital of the joint venture are divided into series A and series B interests. Both series of interests confer identical rights upon their holders. Pemex TRI holds the series A partnership interests and we hold an equal number of series B partnership interests. We and Pemex TRI are each entitled to cast one vote for each US$1,000 of contributed capital, with Pemex TRI and us having an equal number of votes.

Management. Our joint venture with Pemex TRI is managed by a board of managers comprised of six members. We and Pemex TRI are each entitled to appoint three members of the board and their respective alternates. If at any time we or Pemex TRI hold(s) in excess of 50% of the contributed capital of the joint venture, we or Pemex TRI, as the case may be, will be entitled to appoint an additional member of the board and his or her alternate. Each year, the board of managers appoints a chairman, a vice chairman and a secretary of the board. The positions of chairman and vice chairman of the board alternate between the managers appointed by the holders of the Series A and Series B interests. If at any time we or Pemex TRI hold(s) in excess of 50% of the contributed capital of the joint venture, we or Pemex TRI, as the case may be, will be entitled to appoint the chairman, the vice chairman and the secretary of the board. The board of managers is authorized to appoint and remove the chief executive officer of the joint venture, as well as to create any committees.

Generally, so long as we and Pemex TRI hold equal 50% interests in the joint venture, actions (including additional capital contributions) may only be taken as agreed to by both us and Pemex TRI at the joint venture partners' meetings and board meetings through our respective representatives. However, if at any time the series A or series B interests represent more than 50% of the contributed capital of the joint venture, only a majority of the capital will be required to take action; provided that if the action relates to a capital increase, issuance of debt securities, change in corporate purpose, change of nationality, voluntary dissolution, change in legal form or merger, or to any amendment of the organizational documents of the joint venture, the affirmative vote of 75% of the capital will be required to approve such action.

Dispute resolution. In the event that a unanimous decision cannot be reached on any matter after reasonable efforts to do so, the dispute will be submitted to arbitration in New York, New York.

Transfer of Interests. Any sale, assignment, transfer or encumbrance of ownership interest in the joint venture by a partner requires the prior written consent of the other partner, which consent may not be unreasonably withheld. In the event of transfer of a partnership interest, the relevant buyer must first agree in writing to be bound by the terms of the joint venture partners' agreement. In addition, we and Pemex TRI each have a right of first refusal to purchase any interest that the other may wish to sell to a third party.

LNG Business

Overview

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

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

LNG Terminal

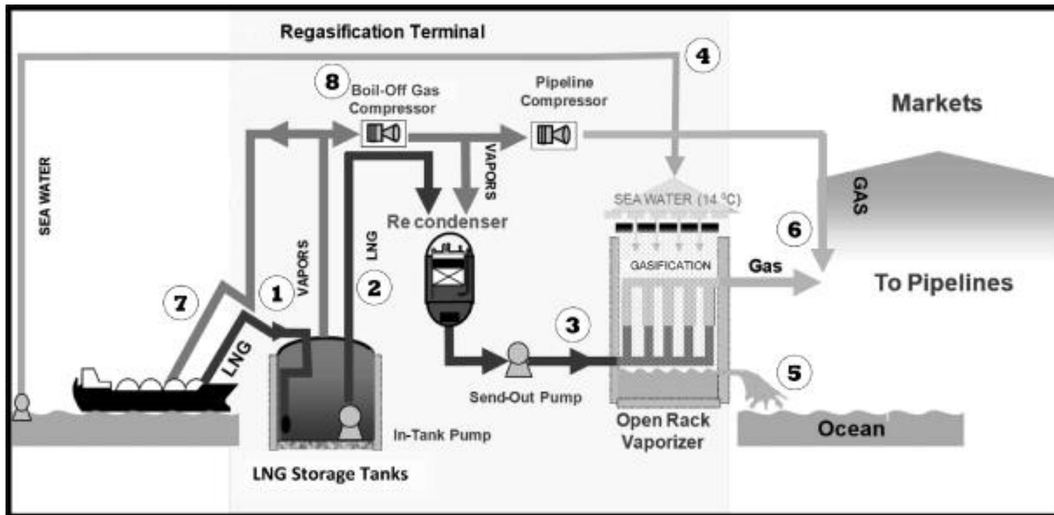
LNG is natural gas that has been cooled to approximately -160° Celsius in order to condense the gas into a liquid. Liquefaction of natural gas reduces its volume by a factor of 600, making it more feasible to transport by ship or truck.

Our 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.

Our LNG terminal has firm natural gas send-out capacity of 1,300 MMcfd (13.5 MMThd) of natural gas. The facility is capable of supplying an equivalent of approximately one-eighth of Mexico's 2013 domestic natural gas needs. Our LNG terminal can also be expanded to accommodate an additional marine berth and two additional LNG storage tanks in the future.

Operation of Our LNG Terminal. The diagram below illustrates the operation of our LNG terminal. First, our customers deliver LNG from cryogenic LNG tankers to the terminal for storage in our LNG tanks (step 1), where they maintain ownership of the LNG that we store on their behalf. When our customers request natural gas from us, we move LNG from our storage tanks through a send-out pump (step 2) to open rack vaporizers (step 3), where the LNG is regasified using heat drawn from ambient-temperature seawater that we pump through our vaporizers (step 4). After flowing through our vaporizers, the sea water used to regasify the LNG is returned to the ocean (step 5) 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, we deliver our customers' resulting natural gas to our Rosarito pipelines system (step 6).



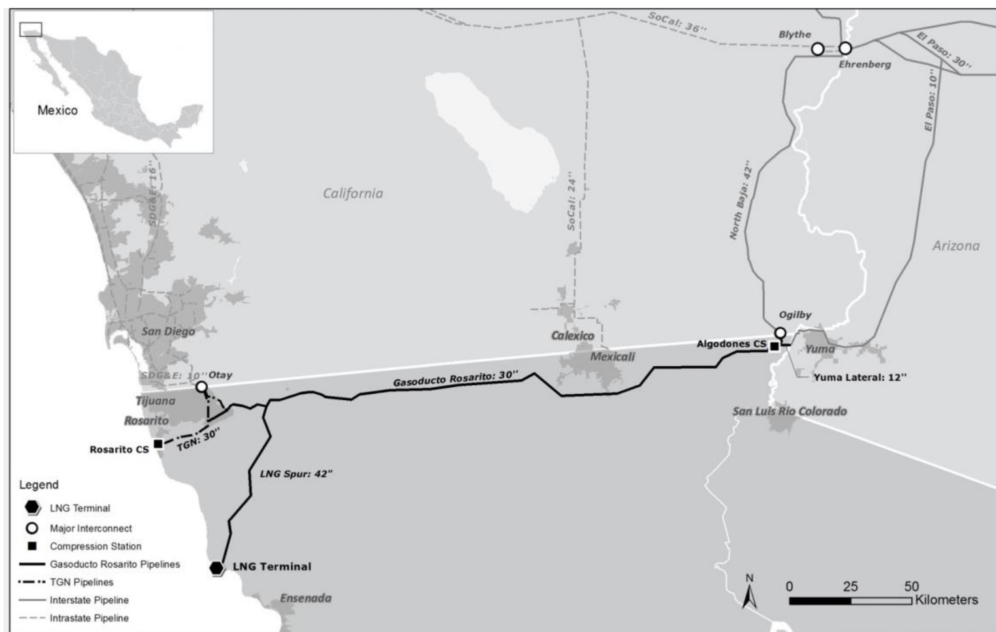
Because there is a large temperature difference between the LNG and ambient conditions, a very small portion of this LNG is continuously converting back to a gaseous state as the LNG warms. This gas is referred to as boil-off gas. As illustrated in the above diagram, the boil-off gas can either be returned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

All electricity required for the operation of our 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 our customers provide to us at no charge whenever they store LNG in the terminal. Our 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 our LNG storage tanks.

In order for our 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 our LNG terminal's 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, we 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, our subsidiary IEnova LNG, has delivered LNG cargoes to the terminal, which it purchases from one of our U.S. affiliate, 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 LNG for purchase each year for the express purpose of maintaining a sufficient volume of LNG in our terminal such that the terminal can remain continuously operational. IEnova LNG has agreed to use reasonable efforts to deliver minimum quantities of LNG to our LNG terminal. Our LNG terminal's customers are not otherwise obligated under the terms of their firm storage services agreements to supply minimum quantities of LNG. If we are unable to obtain sufficient volumes of LNG from the capacity holders to maintain the minimum required internal temperature of our LNG terminal, we will need to secure such volumes in the open market. See "Risk Factors – Risks Relating to Our Business and Our Industry – We may be exposed to high costs to acquire LNG in order to maintain the operations of our LNG terminal."

Location. The following map shows the location of our LNG terminal and the natural gas pipeline systems to which it is connected:



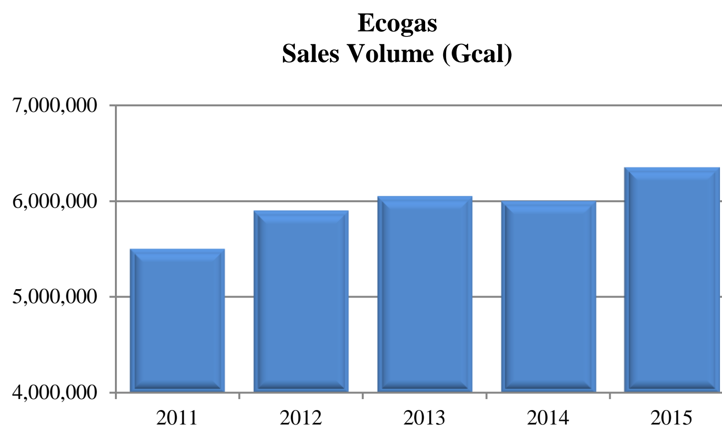
Natural Gas Distribution Business

Overview

Our subsidiary Ecogas was awarded the first distribution permit under the 1995 natural gas regulation given to a private company to build and operate a natural gas distribution system in Mexico. Through its approximately 3,658 km of pipelines, as of December 31, 2015 the Ecogas distribution system served in excess of 113,000 residential, commercial and industrial customers in northern Mexico, with operations in the distribution zones of Mexicali, Chihuahua (serving the cities of Chihuahua, Delicias, 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, we 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, we have endeavored to market natural gas as a better alternative to LPG for industrial, commercial and residential consumption in our markets. The following chart illustrates the growth in volume of natural gas sold by our distribution business over the last five years.

Ecogas
Sales Volume (Gcal)



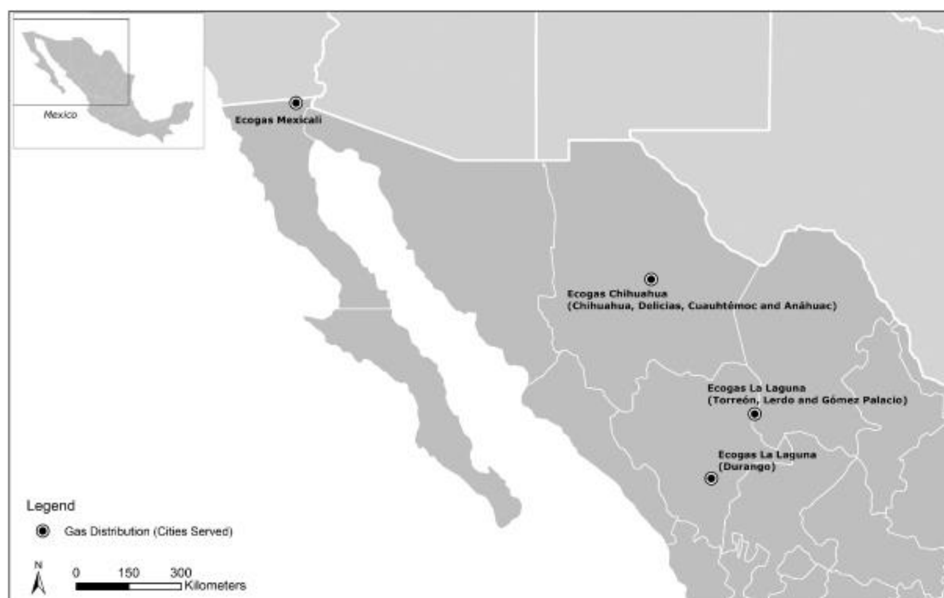
Our natural gas distribution business includes the following key activities:

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

Our revenues are derived from service and distribution fees charged to our customers through monthly invoices. The purchase price we pay for natural gas is based on international price indexes and is passed through to our customers. However, we enter into hedging transactions with respect to these prices to reduce potential volatility in the price for natural gas that our customers ultimately pay. The service and distribution fees charged by the Ecogas system are regulated by the Mexican Energy Regulatory Commission, which performs a review of

rates every five years and monitors prices charged to end-users. The rates for our Mexicali, Chihuahua and La Laguna–Durango distribution zones are currently under review by the Mexican Energy Regulatory Commission. The current structure of natural gas prices minimizes the market risk to which we are 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 our Ecogas distribution concern: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, 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, 2015:

	Mexicali	Chihuahua	La Laguna-Durango	Total
Length of pipelines (km)	537	2,124	997	3,658
Number of customers:				
Residential	14,708	66,903	29,075	110,686
Commercial/industrial	295	1,736	728	2,759
Throughput (MMcfd):				
Residential	421	3,457	800	4,678
Commercial/industrial	20,243	28,378	9,102	57,723

Natural Gas and Our Market Opportunity

We believe that our customer service at each stage of the natural gas service cycle has led to high levels of customer satisfaction and differentiates our 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. We believe our excellent customer service and quick response time are key competitive advantages that have helped us establish a reputation for quality and build customer loyalty.

Natural Gas Customer Arrangements

As of December 31, 2015, residential customers accounted for 98% of our distribution business in terms of number of customer accounts, and contributed 56% of Ecogas' profit margin. We do not typically enter into long-

term agreements with our residential customers, and they pay the rates for our distribution services that are established by the Mexican Energy Regulatory Commission. We invoice these customers on a monthly basis and their service can be terminated by them or us at any time.

As of December 31, 2015, commercial and industrial customers together accounted for the remaining 2% of our distribution business in terms of number of customer accounts, and for 93% of its throughput volume, and contribute 44% of its profit margin. We have entered into long-term supply agreements with certain of these customers. While the Mexican Energy Regulatory Commission sets the maximum rate we can charge for our distribution service, we 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 our customers are required to provide us with guarantees in the form of letters of credit or cash deposits.

Power Segment Overview

Our power segment includes a natural-gas-fired, combined-cycle power generation facility and a wind power generation project currently in development. A more detailed description of the businesses within our power segment follows.

Natural Gas Fired Power Generation Business

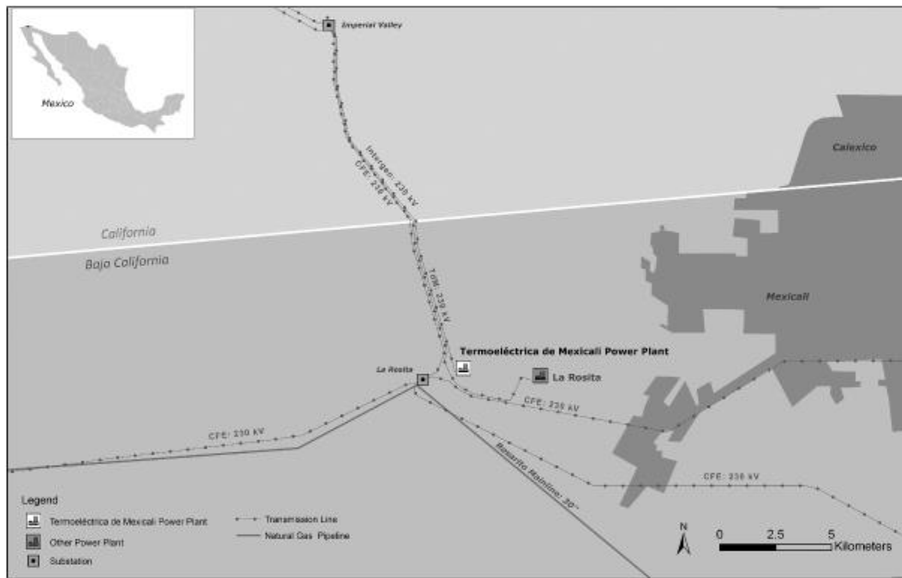
Termoeléctrica de Mexicali

We own and operate the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. This 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 our Rosarito pipelines system, which allows it to receive regasified LNG from our 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, energy service providers and financial institutions.

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, including 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 relying, for cooling, on untreated sewage water 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 as well as 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, so that all or a portion of the plant's output could be delivered to the Mexican Federal Electricity Commission'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

We are parties to an energy management services agreement with our affiliate, Sempra Generation, with respect to the electricity generated at our 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 our electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on our behalf. Under this agreement, we reimburse Sempra Generation's expenses in connection with these services and pay Sempra Generation an annual energy services fee based on the level of service provided to our 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 us for the natural gas required for electricity generation at the power plant, under the current energy management services agreement we bear the cost of the natural gas used to fuel the power plant, and we sell 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

We supply between 67 MMcfd (0.7 MMThd) and 101 MMcfd (1.1 MMThd) of natural gas to the Termoeléctrica de Mexicali power generation facility, which we purchase directly from our subsidiary IEnova LNG. Under a previous agreement between us and JPM Ventures Energy, JPM Ventures Energy sold natural gas to us at a price that was less than the rate we would have otherwise had pay to have natural gas delivered to the facility. Our costs have increased as a result of the expiration of this agreement in September 2014.

Wind Power Generation Business

Energía Sierra Juárez

We have commenced development of a wind powered generation project, Energía Sierra Juárez, along mountain ridges in the Sierra de Juárez Mountains in Baja California, Mexico. This region is 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. The project is interconnected to the existing Southwest Power link at our affiliate SDG&E's

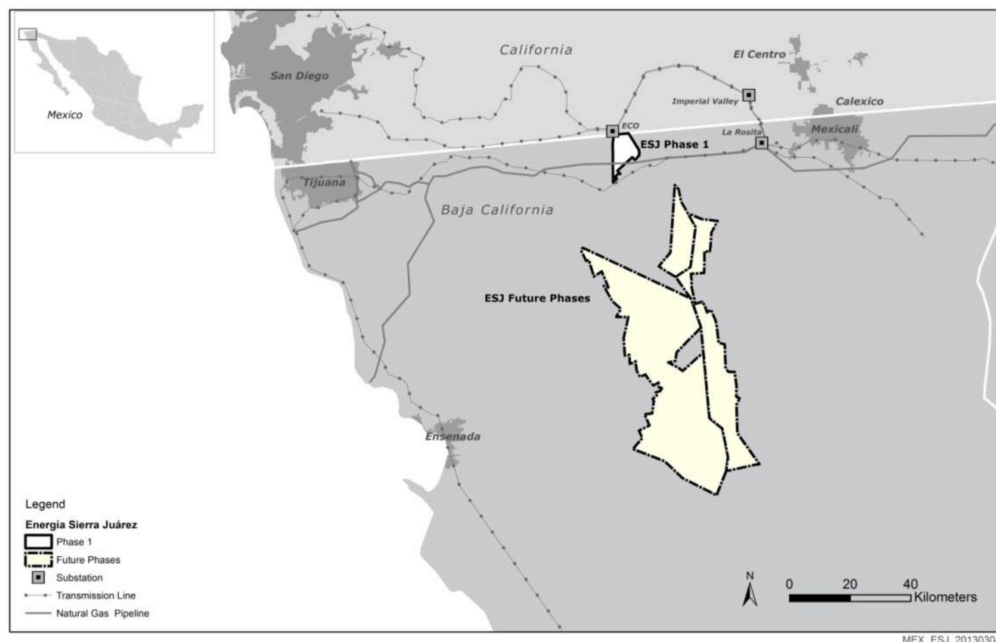
proposed East County Substation in eastern San Diego County via a new cross-border transmission line, and could potentially also connect directly with the Mexican power grid.

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, we expect 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). We expect that the electricity generated from the initial phase of this project will be sold entirely to our affiliate SDG&E pursuant to a 20-year power purchase agreement. This power purchase agreement has been approved by the California Public Utilities Commission and the U.S. Federal Energy Regulatory Commission, and the project has received a U.S. Presidential Permit required to construct the cross-border transmission line. We expect to begin operations in the first half of 2015. The initial phase of this project required a total investment of approximately US$318 million. Future expansion of Energía Sierra Juárez will depend, among other factors, on the ability to obtain additional power purchase contracts. In July 2014 we sold a 50% interest in the initial phase of this project to certain affiliates of InterGen.

We believe that utilities located throughout California are prime potential customers for the power generated by this project, and if we obtain additional permits we have 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.

Under the recent amendment of the legal framework for the regulation of Mexico's energy sector, participants in the Mexican electricity market will be subject to certain clean energy obligations. Clean energy producers will be issued clean energy certificates. A power producer will be issued a clean energy certificate for each MWh produced at a clean energy facility if their production does not involve the use of fossil fuels, or for each MW generated at the minimum level of efficiency determined in accordance with their usage of fossil fuels. The Mexican Energy Ministry has indicated that by 2018 producers will be required to hold clean energy certificates accounting for 5% of their annual MW usage.

The following map shows the approximate locations of the sites where the Energía Sierra Juárez wind power generation development will be constructed:



Key Arrangements

Power Purchase Agreement

All of the electricity generated from the initial phase of this project will be 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 we first deliver 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 we and InterGen entered into a partnership interest purchase and sale agreement pursuant to which we sold to InterGen a 50% interest in Energía Sierra Juárez in order to develop the initial phase of our wind power generation project through a 50/50 joint venture with InterGen. We account for this joint venture using the equity method. As a condition for such sale, we and InterGen entered into two joint venture agreements which are described below. This joint venture assumed our obligations under a loan agreement into which we had previously entered with certain related parties in connection with the Energía Sierra Juárez project. As of December 31, 2014, the principal amount outstanding under this agreement was US$22.7 million. The loan accrues interest at a floating rate equal to the 30-day LIBOR plus 637.5 basis points (6.55% as of December 31, 2014).

Project Financing Agreement

On June 12, 2014, Energía Sierra Juárez entered into a US$239.8 million project financing agreement with a bank syndicate comprised of Mizuho Bank, as coordinating lead arranger, the North American Development Bank, or NADB, as technical and modeling bank, and Nacional Financiera, S.N.C., Institución de Banca de Desarrollo, Norddeutsche Landesbank Girozentrale, or NORD/LB, and Sumitomo Mitsui Banking Corporation, as lenders. This agreement included a construction facility and a long-term loan. Energía Sierra Juárez used the proceeds from the construction facility to finance or refund the project's construction costs, and the proceeds from the long-term loan to repay the outstanding balance of the construction facility and other accrued obligations as of the date of substantial completion of the project.

Upon completion of the initial phase of the project in July 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%

As of December 31, 2015, Energía Sierra Juárez had US$236.6 million and letters of credit totaling US$25.4 million outstanding under or in connection with this loan.

Joint Venture Agreements

In July 2014 we and InterGen entered into two joint venture agreements. These agreements govern our relationship with InterGen as it relates to the management of our joint venture and our 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.

A summary of the material terms of the joint venture agreements between us and InterGen follows.

Management. Our joint venture with InterGen is managed by a board of managers comprised of four members and we and InterGen each have the right to appoint two managers. The board of managers is authorized to appoint the officers responsible for managing the affairs of the joint venture. Certain actions require approval by either 55% or 75% of the interests in the joint venture based on value.

Dispute resolution. If a deadlock occurs and cannot be resolved through negotiation and mediation, pursuant to the joint venture agreements either partner may exercise a put option to sell to the other its entire interest in the joint venture, or a call option to purchase the other's entire interest in the joint venture. Disputes relating to matters that do not require approval by 55% or 75% of the interests in the joint venture as described above, which remain unresolved after reasonable negotiation efforts by members our respective senior management, will be resolved through binding arbitration.

Distributions. The joint venture agreements provide that any cash not required to service the debt or otherwise pay the costs of the joint venture will be distributed to the joint venture partners on a monthly basis.

Transfer of interests in the joint venture. We or InterGen may transfer our respective interests in the joint venture and in any loan provided to the joint venture, so long as the transfer relates to the transferring partner's entire interest in the joint venture and the buyer agrees to be bound by the terms of the joint venture agreements. In addition, we and InterGen each hold a right of first refusal to purchase the other's interest in the joint venture if the other intends to transfer such interest to a third party.

Competition

Gas Segment

Pipelines Business

While a substantial majority of our natural gas pipeline capacity is contracted under long-term, firm capacity transportation service agreements, in the event that we bid for new natural gas pipeline projects we may face competition for customers from other large, well-capitalized providers of energy infrastructure services, such as TransCanada, Kinder Morgan, Elecnor, Engie, Carso, Fermaca and Enagas. In addition, we may also face competition from Mexican government-owned producers or other entities controlled by the Mexican government.

The market for the supply of LPG is highly competitive and new pipelines are currently being built to address the demand for LPG in each of the markets served by our pipelines. Our pipelines compete primarily with other pipelines owned by large companies that transport, store and distribute natural gas and LPG. Some of these competitors may expand or construct systems that would create additional competition for the services we provide to our customers.

LNG Business

Our LNG terminal does not currently experience competition because it is fully subscribed with long-term contracts that generate revenue from customers whether or not cargoes are delivered to the terminal. In the event that we did have uncontracted storage capacity at our terminal, we would compete for customers that would like to provide natural gas in northern Mexico and the United States. Currently, the only other existing regasification terminals on the Pacific coast of North and South America are Manzanillo LNG (owned by KoGas, Mitsui and Samsung) in Colima, Mexico, LNG Mejillones (owned by Engie and Codelco) in Chile, and LNG Quintero (owned by BG Group, ENAP, Endesa Chile and Metrogas) in Chile. These terminals serve markets in which we do not compete.

Natural Gas Distribution Business

The main competitors of our natural gas distribution business are distributors of LPG that deliver LPG directly to customers, usually in trucks, to be stored on the customers’ property. The price of the natural gas we sell to the customers of our distribution business is based upon the price of natural gas on the international market,

whereas the price of the LPG against which we compete is based on prices that are subsidized by the Mexican government. To the extent that we are not successful in obtaining natural gas that is priced competitively to the subsidized price of the LPG against which we compete, this will place our distribution business at a competitive disadvantage. Our natural gas distribution business competes against LPG not only in terms of price, but also in terms of safety, convenience and environmental impact. Unlike LPG, natural gas is lighter than air and thus can be dispersed more easily, which reduces the risk of explosion. Also, as our natural gas product is delivered to our distribution customers on an uninterruptible, as needed, basis, and, unlike LPG, does not need to be stored by our customers for use, we believe that our product is viewed by customers as offering greater convenience than LPG. Lastly, as natural gas burns more cleanly than LPG and without the emission of sulfur oxides or particulate matter, we believe that our product is also viewed by consumers as a more environmentally sound alternative to LPG. Despite these advantages, many potential customers continue to use LPG due to the costs required to adapt their homes or businesses to use natural gas, and due to the fact that LPG generally has a cost similar to natural gas due to LPG subsidies from the Mexican government.

We may also face competition from other distributors of natural gas in our distribution zones, as the 12-year exclusivity period that applied to our distribution zones expired in 2011. As a result of the expiration of our exclusivity period, other distributors of natural gas are now legally permitted to build natural gas distribution systems within our distribution zones and compete with us within our distribution zones for customers, though clear rules regarding this potential competition have not been established by the Mexican Energy Regulatory Commission. To the extent that other distributors of natural gas overcome existing structural barriers to entry to expand or construct distribution systems in our distribution zones, that would create additional competition against the natural gas we provide to our customers. Mexico's regulatory framework also allows groups of industrial customers to establish "self-supply associations" which would be permitted to build and operate their own natural gas supply systems to satisfy their needs. To the extent that any such self-supply associations are developed within our distribution zones, we would also compete against such self-supply associations to service their constituents.

Our ability to compete in the natural gas distribution market is also subject to limitations based on the regulatory environment in which we operate. For example, in order to obtain the favorable opinion of the Mexican Antitrust Commission in connection with a permit we required for the operation of our Rosarito pipelines system, we were required to agree to divest ourselves of the Mexicali components of our Ecogas natural gas distribution system. We have been subject to this obligation since 2000 and have made good faith efforts to comply with the obligation to divest ourselves of our Mexicali gas distribution system, but have not yet located a purchaser for these assets. See "Risk Factors – Risks Relating to Our Business and Our Industry – We operate in a highly regulated environment, and our profitability depends on our ability to comply with a number of laws and regulations on a timely and efficient basis."

Power Segment

Historically, Mexican laws and regulations limited the participation of private companies in the generation of electricity to independent power production, export, small production and production for self-supply or own use purposes. However, the recent amendment of the legal framework for the regulation of the Mexican power sector, which included the enactment of the Mexican Law for the Electricity Industry, lifted all restrictions for the generation of electricity and authorized private companies to sell electricity in the wholesale market provided they obtain a permit. See "Regulation, Permits and Environmental Matters – Regulation of Our Power Generation Business." Our Termoeléctrica de Mexicali power plant was originally conceived to export electricity to the United States, only. To the extent that we decide to supply electricity to the Mexican Federal Electricity Commission, we will face competition from other developers such as Gas Natural Fenosa, InterGen and Iberdrola, each of which has invested heavily in Mexico in the past and would likely compete with us in the future. We currently anticipate that the entire output of the first phase of our Energía Sierra Juárez wind power generation project will be sold to one of our U.S. affiliates under a long-term electricity purchase agreement. See "– Business Overview by Industry Segment – Power Segment – Wind Power Generation Business – Energía Sierra Juárez – Key Arrangements – Power Purchase Agreement." For U.S.-based customers, we mainly face competition from other generation facilities and the spot market in general. In terms of sales to U.S.-based customers, our sales and, through our affiliates, marketing, of electric power compete directly with other generators and marketers serving the market areas. Competitors can include government-owned power producers,

local distribution companies with self-generation capability and other privately-owned electric generation and marketing companies. Since our indirect controlling shareholder Sempra Energy, through our U.S. affiliates, also participates in the electricity generation sector, we may face competition with such affiliates. Competition is based primarily on price, availability, terms of service, flexibility and reliability of service. General economic activity, conservation, legislation, governmental regulations, weather, additional generation capacities and other factors affect the supply and demand for electricity.

Real Property and Land-Use Rights

Gas Segment

Pipelines Business

The real property of our 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 we own, used primarily to install above-ground facilities such as main line valves, metering stations and compression stations. We believe that we hold satisfactory title to the land we own. We have leased our leased properties for many years without any material challenge known to us relating to the title to the land upon which these assets are located, and we believe that we have satisfactory leaseholds to such land. We have no knowledge of any material challenge to the underlying title of any material lease, easement, right-of-way, permit or usufruct held by us, and we believe that we have satisfactory title to all of our material leases, rights-of-way, permits and usufructs.

LNG Business

Our LNG terminal is located on 4,700 acres (1,902 hectares) of land that we own in a relatively remote, previously undeveloped area of the Baja California coast. The terminal's marine facilities include a single jetty and berth with provision 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 and 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 Mexican Energy Regulatory Commission 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. We also hold a 30-year concession for the occupation and use of federal maritime terrestrial zone adjacent to our property, which is subject to periodic renewals. The concession agreement covers a jetty and berth, among other infrastructure ancillary to the LNG terminal. We are currently engaged in disputes regarding our title to the properties on which our LNG terminal is located. See "– Legal, Administrative and Arbitration Proceedings – Legal Proceedings Relating to Our LNG Terminal."

Natural Gas Distribution Business

The real property of our 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 our natural gas distribution system typically run along public roads and in such instances we pay the local municipality for the right to maintain and operate our distribution system along such roads. Where the pipelines of our distribution system enter the property of our customers, we have easements allowing us to access their property, as well as to maintain and operate our distribution system. In the case of our La Laguna – Durango and Chihuahua distribution zones, we also lease some rights-of-way from Pemex. Approximately 95% of the total length of our pipelines network is underneath public roads. We have no knowledge of any material challenge to (1) any material easement, right-of-way, permit, license or lease held by us, or (2) our title to any material easement, right-of-way, permit, license or lease, and we believe that we have satisfactory title to all of our material easements, rights-of-way, permits, licenses and leases. In addition, we lease an aggregate of approximately 190,000 square feet (17,600 meters) of office and commercial space in Chihuahua, Torreón and Mexicali, for approximately US$0.3 million per year.

Power Segment

Our 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 we own. We also hold rights of way obtained from the U.S. Bureau of Land Management with respect to the property upon which our generation tie-line runs into the United States to connect the power plant to the Imperial Valley substation. We hold 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 our Energía Sierra Juárez wind project, we have entered into three lease agreements with various landowners for approximately 548,000 acres (219,000 hectares) for the construction and operation of wind power generation facilities. We entered into the first of these leases in November 2006 with Ejido Jacume, a group of approximately 74 individual landowners, for approximately 12,355 acres (5,000 hectares) on which we have built the initial phase of this project. We entered into the second of these leases in June 2007 with Ejido Cordillera Molina Ejido, a group of approximately 56 individual landowners, for the lease of approximately 348,418 acres (141,000 hectares). We entered into the last of these leases in August 2009 with Ejido Sierra de Juárez, a group of approximately 67 individual landowners, for the lease of approximately 180,386 acres (73,000 hectares). Under each of these arrangements all structures and improvements remain our property and may be removed at the end of the lease. We also hold 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 Ejido Jacume lease provides for a monthly rent of US$2,000 through the project's commencement of commercial operation and 4.0% of our gross revenues from our operations on the property thereafter.

Under the Ejido Cordillera Molina lease, we made an upfront payment of approximately US$0.8 million and must pay quarterly rent of US$30,000 through the fifth anniversary of the lease or until the commencement of commercial operation on the property, whichever occurs first. We will be required to pay an additional US$1.5 million upon groundbreaking for the development of up to 250 MW of capacity, and US$0.3 million upon groundbreaking for the development of each additional 100 MW of capacity. Upon commencement of commercial operation on the property and for a period of 20 years thereafter we will be required to pay rent in an amount equal to 3% of our gross revenues from our operations on the property, and to 4% after such 20-year period. If we do not designate any given parcel for the construction of wind power generation facilities, the unused parcels will revert to Ejido Cordillera Molina each year between years six and ten and will no longer be a part of the lease. If we do not begun construction within ten years from the execution of the lease, the lease will terminate automatically. We may terminate the lease at any time within the first ten years of its term.

Under the Ejido Sierra de Juárez lease, we made upfront payments totaling approximately US$0.3 million and must pay quarterly rent of US$74,000 through the tenth anniversary of the lease or until the commencement of commercial operation on the property, whichever occurs first. We will be required to pay an additional US$6,000 per affected land owner upon groundbreaking for the development of the project and US$1,450 per affected landowner upon groundbreaking for subsequent phases of the project. Following the commencement of commercial operation on the property we will be required to pay rent in an amount equal to the greater of (1) US$75,000 per affected landowner per month or (2) 3.5% of our gross revenues from our operations on the property. If we do not begun construction within ten years from the execution of the lease, the lease will terminate automatically.

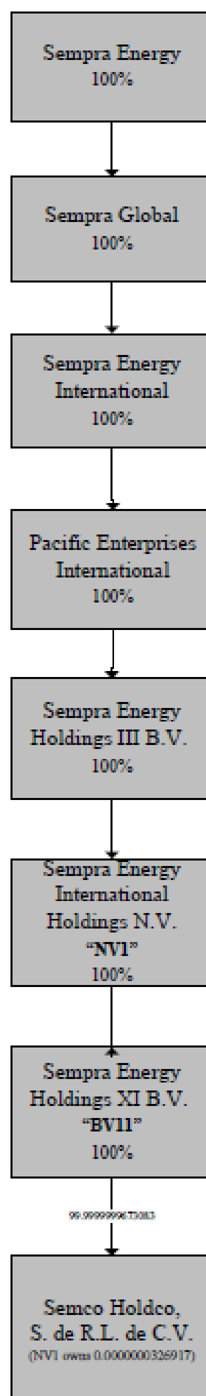
Insurance

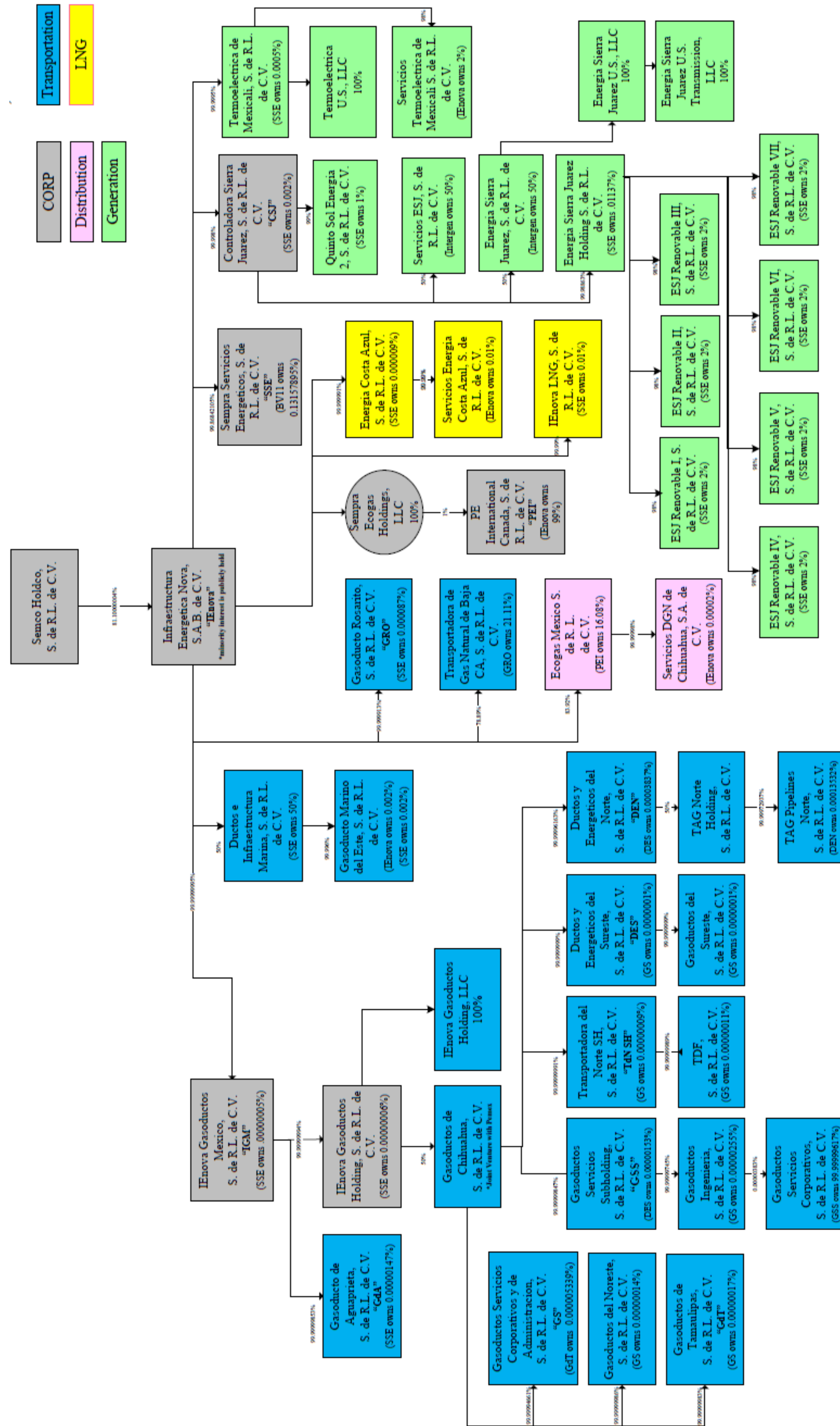
Our operations and assets are covered by insurance under policies that we believe are comparable with those maintained by other energy companies engaged in similar businesses with similar types of assets. These include: (1) general commercial and business liability insurance for bodily injury and property damage to third parties, and for pollution caused by our 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 our 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 our directors or officers, or arising as a result of our employment practices. In addition, we maintain excess liability policies that provide for limits in excess of those insured under our underlying commercial and automobile liability policies.

All of our policies are subject to terms, conditions, limits, exclusions and deductibles that are customary for our industry. Our assets and operations are also covered by insurance under certain global policies maintained by our indirect controlling shareholder.

ix) Corporate Structure as of March 23, 2016





CORP
Distribution
Generation
Transportation
LNG
Semco Holdco, S. de R.L. de C.V.
Infraestructura Energetica Nova, S.A.B. de C.V. "IEnova" *minority interest is publicly held
Termoelectrica de Mexicali, S. de R.L. de C.V. (SSE owns 0.0005%)
Termoelectrica U.S., LLC 100%
Servicios Termoelectrica de Mexicali S. de R.L. de C.V. (IEnova owns 2%)
Controladora Sierra Juarez, S. de R.L. de C.V. "CSJ" (SSE owns 0.002%)
Quinto Sol Energia 2, S. de R.L. de C.V. (SSE owns 1%)
Servicios ESJ, S. de R.L. de C.V. (Intergen owns 50%)
Energia Sierra Juarez, S. de R.L. de C.V. (Intergen owns 50%)
Energia Sierra Juarez Holding S. de R.L. de C.V. (SSE owns .01137%)
Energia Sierra Juarez U.S., LLC 100%
Energia Sierra Juarez U.S. Transmission, LLC 100%
ESJ Renovable I, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable II, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable III, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable IV, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable V, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable VI, S. de R.L. de C.V. (SSE owns 2%)
ESJ Renovable VII, S. de R.L. de C.V. (SSE owns 2%)
Sempra Servicios Energeticos, S. de R.L. de C.V. "SSE" (BV11 owns 0.13157895%)
Energia Costa Azul, S. de R.L. de C.V. (SSE owns 0.000009%)
Servicios Energia Costa Azul, S. de R.L. de C.V. (IEnova owns 0.01%)
IEnova LNG, S. de R.L. de C.V. (SSE owns 0.01%)
Sempra Ecogas Holdings, LLC 100%
PE International Canada, S. de R.L. de C.V. "PEI" (IEnova owns 99%)
Gasoducto Rosarito, S. de R.L. de C.V. "GRO" (SSE owns 0.000087%)
Transportadora de Gas Natural de Baja CA, S. de R.L. de C.V. (GRO owns 21.11%)
Ecogas Mexico S. de R.L. de C.V. (PEI owns 16.08%)
Servicios DGN de Chihuahua, S.A. de C.V. (IEnova owns 0.00002%)
Ductos e Infraestructura Marina, S. de R.L. de C.V. (SSE owns 50%)
Gasoducto Marino del Este, S. de R.L. de C.V. (IEnova owns 0.002%) (SSE owns 0.002%)
IEnova Gasoductos Mexico, S. de R.L. de C.V. "IGM" (SSE owns .000000005%)
IEnova Gasoductos Holding, S. de R.L. de C.V. (SSE owns 0.00000006%)
IEnova Gasoductos Holding, LLC 100%
Gasoducto de Aguaprieta, S. de R.L. de C.V. "GdA" (SSE owns 0.00001147%)
Gasoductos de Chihuahua, S. de R.L. de C.V. *Joint Venture with Pemex
Gasoductos Servicios Corporativos y de Administracion, S. de R.L. de C.V. "GS" (GdT owns 0.000005339%)
Gasoductos del Noreste, S. de R.L. de C.V. (GS owns 0.00000014%)
Gasoductos de Tamaulipas, S. de R.L. de C.V. "GdT" (GS owns 0.00000017%)
Gasoductos Servicios Subholding, S. de R.L. de C.V. "GSS" (DES owns 0.0000153%)
Gasoductos Ingenieria, S. de R.L. de C.V. (GS owns 0.000002553%)
Gasoductos Servicios Corporativos, S. de R.L. de C.V. (GSS owns 99.99999417%)
Transportadora del Norte SH, S. de R.L. de C.V. "TdN SH" (GS owns 0.000000009%)
TDF, S. de R.L. de C.V. (GS owns 0.00000011%)
Ductos y Energeticos del Sureste, S. de R.L. de C.V. "DES" (GS owns 0.00000001%)
Gasoductos del Sureste, S. de R.L. de C.V. (GS owns 0.00000001%)
Ductos y Energeticos del Norte, S. de R.L. de C.V. "DEN" (DES owns 0.0000383%)
TAG Norte Holding, S. de R.L. de C.V.
TAG Pipelines Norte, S. de R.L. de C.V. (DEN owns 0.00013532%)

x) Description of Our Principal Assets

See “Business Overview by Industry Segment – Gas Segment” and “Business Overview by Industry Segment – Power Segment.”

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 revisión) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdéz Castañeda ("Castro* and *Valdez"),* jointly, and Mónica Fabiola Palafox ("Palafox"), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaría 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 *Valdéz,* SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, *Valdéz* 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, Valdéz* and *Palafox* are unfounded.

The judgment of nullity of Castro is pending. In the case of *Palafox,* the situation has not changed compared to the previous report.

b. Motion for annulment *against ECA's port concession, filed by IVG.* In January 2005, IVG filed before the Ministry of Communications and Transport *(Secretaría 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 revocación)* 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, we report 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 Pacífico, S.A. de C.V. ("IBP").* In 2006, IBP started an action / "popular claim" before the Federal Attorney General Office of Environmental Protection *(Procuraduría Federal de Protección 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 Ramón Eugenio Sánchez Ritchie ("Sánchez Ritchie").* In June 2010, *Sánchez 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 *Sánchez Ritchie* named as defendants 17 governmental agencies, including SEMARNAT, the Regulating Energy Commission *(Comisión Reguladora de Energía, 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, *Sánchez 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. *Sánchez 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 *Sánchez 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 *Sánchez 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. *Ramón Eugenio Sánchez Ritchie* filed a direct constitutional claim and it is pending of resolution in the First Collegiate Court.

e. *Municipal claim filed by Sánchez Ritchie.* In February 2011, *Sánchez Ritchie* filed a complaint before the Directorate of Urban Control *(Dirección 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 *Sánchez 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 *Ramón Eugenio Sánchez 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 *Ramón Eugenio Sánchez 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 *(Secretaría 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 unfounded.

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 it is expected to have a resolution within eight months from the hearing.

g. *Criminal Investigation.* In May 2009, *Sánchez 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 *Sánchez 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 *Sánchez 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 *Sánchez Ritchie* from the immovable property. In the criminal complaints filed in 2009, *Sánchez 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, *Sánchez 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 *Sánchez 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 has not issued a resolution about it. The Company deems that the claims of *Sánchez Ritchie* are unfounded.

h. *Motion for review against the authorization 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.

<u>*Affairs on ESJ*</u>

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. Once TP submits its expert opinion, the judge shall determine the trial within 15 days. The request filed by TP for the final suspension is also pending. The management of the Company deems that TP's claims are unfounded.

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.

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 our company approved a Ps.1.00 increase in our equity for its payment by Sempra Energy Holdings XI, B.V., a subsidiary of Sempra Energy, toward an increase in its equity interest in us, as well as our transformation from a limited partnership into a limited liability, variable stock corporation. See Note 1.2.1 to out audited financial statements included elsewhere in this report. As a result of these actions, on February 15, 2013 all partnership interests in our 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

Our 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 our capital and Class II shares represent the variable portion of our capital. The imputed value of our 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 our 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 our stock to be determined based on the offering price per share in a global offering of our shares and assuming the registration of our shares with the Mexican Securities Registry. On the offering date, on which the registration of our shares with the Mexican Securities Registry became effective, Sempra Energy Holding XI B.V. transferred to Semco all of the shares of our stock then held by it, and Semco became our 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 US$78,106 (Ps.967 million).

At an extraordinary shareholders' meeting held September 14, 2015, our shareholders approved a Ps.3.3 billion increase in our 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 our consolidated financial statements.

DIVIDENDS AND DIVIDEND POLICY

xiii) Dividends

A vote by the majority of our 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 our 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 we have increased our legal reserve by at least 5.0% of our annual net profits until such reserve reaches 20.0% of our capital stock.

Although we do not have a formal dividend policy and have no current plans to adopt such a policy, we currently intend 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 our results of operations, financial condition, cash requirements, future prospects, taxes, covenants in agreements we have entered into or may in the future enter into, our subsidiaries' ability to pay dividends to us, and other factors that our board of directors and shareholders deem relevant. We cannot assure you that we will pay any dividends in the future.

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

During the three-year period ended December 31, 2015, we paid dividends on four occasions:

- On March 1, 2013, in the amount of US$39.0 million;
- On October 16, 2013, in the amount of US$117.0 million;
- On July 31, 2014, in the amount of US$164.0 million; and
- On August 6, 2015, in the amount of US$170.0 million.

Foreign Exchange Restrictions and Other Limitations Affecting the Holders of Our Securities

To the best of our 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 our Notes to exercise their rights under the Notes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

3) Financial Information

a) Selected Financial Information

The following tables present our 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."

We derived the consolidated statements of income data for the years ended December 31, 2013, 2014 and 2015 and the consolidated statements of financial position data as of December 31, 2013, 2014 and 2015 from our audited financial statements included elsewhere in this report. You should read this data together with our 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

	Year ended December 31,		
(in thousands of U.S. dollars)	2013	2014	2015
Revenues	US$ 677,836	US$ 822,796	US$ 671,703
Cost of revenues	(328,817)	(443,298)	(286,597)
Operating, administrative and other expenses	(99,685)	(98,384)	(104,213)
Depreciation and amortization	(61,164)	(61,943)	(67,682)
Interest income	1,372	3,299	6,743
Finance (costs) income	(5,035)	1,143	(10,103)
Other gains (losses)	6,986	1,258	(11,575)
Profit before income taxes and share of profits of joint ventures	**US$ 191,493**	**US$ 224,871**	**US$ 198,276**
Income taxes	(83,792)	(111,283)	(100,406)
Share of profits of joint ventures, net of income taxes	34,689	23,346	42,319
Profit for the year	**US$ 142,390**	**US$ 136,934**	**US$ 140,189**

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)	As of December 31, 2013	2014	2015
Assets			
Current assets:			
Cash and cash equivalents	US$ 103,880	US$ 83,637	US$ 40,377
Short-term investments	207,027	30,020	20,068
Other current assets[1]	187,221	211,962	164,884
Total current assets	**US$ 498,128**	**US$ 325,619**	**US$ 225,329**
Non-current assets:			
Investments in joint ventures	US$ 366,288	US$ 401,538	US$ 440,105
Property, plant and equipment, net	2,213,837	2,377,739	2,595,840
Other non-current assets[2]	163,655	275,322	245,808
Total non-current assets	**US$ 2,743,780**	**US$ 3,054,599**	**US$ 3,281,753**
Total assets	**US$ 3,241,908**	**US$ 3,380,218**	**US$ 3,507,082**
Liabilities and equity:			
Short-term debt	US$ –	US$ 195,089	US$ 88,507
Other current liabilities[3]	193,089	172,461	454,834
Current liabilities	US$ 193,089	US$ 367,550	US$543,341
Non-current liabilities			
Long-term debt [4]	394,656	350,638	299,925
Accounts payable to related parties	38,893	38,460	38,460
Other non-current liabilities[5]	298,858	374,282	445,492
Total non-current liabilities	**US$ 732,407**	**US$ 763,380**	**US$ 783,877**
Total liabilities	**US$ 925,496**	**US$ 1,130,930**	**US$ 1,327,218**
Total equity attributable to owners of the company	**US$ 2,316,412**	**US$ 2,249,288**	**US$ 2,179,864**
Total stockholders' equity and liabilities	**US$ 3,241,908**	**US$ 3,380,218**	**US$ 3,507,082**

(1) Other current assets include value added tax receivables, amounts due from unconsolidated affiliates, income tax receivables, carbon allowances, natural gas inventories, derivative financial instruments and other assets.
(2) Other non-current assets include goodwill, finance lease receivables, carbon allowances and other non-current assets.
(3) Other current liabilities include trade and other payables, wages and benefits payable, income tax liabilities, carbon allowances, provisions, derivative financial instruments, other financial liabilities and other taxes payable.
(4) Long-term debt includes our debt under the Notes.
(5) Other non-current liabilities include derivative financial instruments, provisions, carbon allowances and employee benefits.

Other Financial and Operating Data

(in thousands of U.S. dollars)	Year ended December 31,		
	2013	2014	2015
Acquisitions for property, plant and equipment	US$ 369,672	US$ 325,484	US$ 300,090
EBITDA [(1)]	**249,334**	**281,114**	**280,893**
Adjusted EBITDA [(1)]	**330,085**	**336,890**	**391,814**
Adjusted EBITDA by business segment:			
Gas segment	289,592	300,558	367,224
Power segment	14,604	36,009	24,975
Corporate	(1,111)	323	(385)

For our definition of adjusted EBITDA, an explanation of why we present it and a discussion of its limitations, see "Presentation of Financial and Other Information – Adjusted EBITDA.

b) Financial Information by Business Segment

Segment Information

Below is a presentation of our financial information by business segment, which derives from our audited financial statements.

Products and Services from Which Reportable Segments Derive Their Revenues

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Our reportable segments under IFRS 8, "Operating Segments" include our gas segment and our power segment. The Company's assets are divided between two business segments: (1) our gas segment, which includes natural gas and LPG transportation through our pipelines, our LPG storage facility, our LNG storage and regasification business, which also purchases LNG and sells natural gas to its customers, and our natural gas distribution business; and (2) our power segment, which includes our Termoeléctrica de Mexicali natural-gas-fired, combined-cycle power generation facility and our Energía Sierra Juárez wind power generation project in Baja California, which will supply power to U.S. customers. In addition, certain revenue and costs that are not directly attributable to either of our operating segments are reported as corporate revenue and expenses, which we refer 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.

Results of Operations by Business Segment

Segment Revenues

The following is an analysis of our revenues and results from continuing operations by reportable segment.

(in thousands of U.S. dollars)	Year ended December 31, 2013	2014	2015
Gas			
Revenues from customers	US$ 507,814	US$ 598,183	US$ 526,439
Inter-segment sales	252,117	301,870	255,012
Power:			
Export sales	168,340	222,471	143,498
Inter-segment sales	52,950	66,085	46,237
Corporate			
Revenues from customers	1,682	2,142	1,766
Inter-segment sales	35,854	27,468	35,527
Total segment revenues before inter-segment adjustments and eliminations	1,018,757	1,218,219	1,008,479
Inter-segment adjustments and eliminations	(340,921)	(395,423)	(336,776)
Total segment revenues	**US$ 677,836**	**US$ 822,796**	**US$ 671,703**

Segment Profit

(in thousands of U.S. dollars)	Year ended December 31, 2013	2014	2015
Gas	US$ 180,296	US$ 161,120	US$ 179,049
Power	8,567	28,611	(4,362)
Corporate	(46,473)	(52,797)	(34,498)
Total segment profit	**US$ 142,390**	**US$ 136,934**	**US$ 140,189**

Assets and Liabilities by Segment

(in thousands of U.S. dollars)	Year ended December 31, 2013	2014	2015
Assets by segment:			
Gas	US$ 2,413,965	US$ 2,684,488	US$ 2,916,917
Power	433,894	417,601	382,763
Corporate	394,049	278,129	207,402
Consolidated total assets	**US$ 3,241,908**	**US$ 3,380,218**	**US$ 3,507,082**
Liabilities by segment:			
Gas	US$ 272,298	US$ 334,572	US$ 346,106
Power	64,794	76,076	66,493
Corporate	588,404	720,282	914,619
Consolidated total liabilities	**US$ 925,496**	**US$ 1,130,930**	**US$ 1,327,218**

Other Information by Segment

(in thousands of U.S. dollars)	Property, plant and equipment			Accumulated depreciation		
	Year ended December 31,			Year ended December 31,		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Gas	US$ 2,138,129	US$ 2,414,223	US$ 2,687,691	US$ (287,407)	US$ (326,875)	US$ (370,690)
Power	504,595	447,038	450,665	(150,791)	(165,795)	(180,461)
Corporate.................................	13,156	14,164	15,048	(3,845)	(5,016)	(6,413)
	US$ 2,655,880	**US$ 2,875,425**	**US$ 3,153,404**	**US$(442,043)**	**US$(497,686)**	**US$(557,564)**

(in thousands of U.S. dollars)	Depreciation and amortization			Additions to property, plant and equipment		
	Year ended December 31,			Year ended December 31,		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Gas	US$ 44,605	US$ 45,403	US$ 50,909	US$ 337,545	US$ 291,424	US$ 308,138
Power	15,420	15,234	15,257	63,345	70,611	6,436
Corporate.................................	1,139	1,306	1,516	5,246	1,008	1,072
	US$ 61,164	**US$ 61,943**	**US$ 67,682**	**US$ 406,136**	**US$ 363,043**	**US$ 315,646**

(in thousands of U.S. dollars)	Interest income			Finance (costs) income		
	Year ended December 31,			Year ended December 31,		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Gas	US$ 1,140	US$ 529	US$ 562	US$ 12,046	US$ 30,322	US$ 22,856
Power	5	817	1,493	683	1,182	(25)
Corporate.................................	227	1,953	4,688	(17,764)	(30,361)	(32,934)
	US$ 1,372	**US$ 3,299**	**US$ 6,743**	**US$ (5,035)**	**US$ 1,143**	**US$ (10,103)**

(in thousands of U.S. dollars)	Share of profits of joint ventures			Income tax expense		
	Year ended December 31,			Year ended December 31,		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Gas	US$ 34,689	US$ 24,770	US$ 41,485	US$ (57,165)	US$ (87,581)	US$ (99,988)
Power	–	(1,424)	834	9,158	(8,932)	(4,167)
Corporate.................................	–	–	–	(35,785)	(14,770)	3,749
	US$ 34,689	**US$ 23,346**	**US$ 42,319**	**US$ (83,792)**	**US$(111,283)**	**US$(100,406)**

Revenue by Type of Product or Services

The following is an analysis of our revenue by type of product or services:

(in thousands of U.S. dollars)	Year ended December 31, 2013	2014	2015
Power generation	US$ 168,340	US$ 222,471	US$ 143,073
Sale of natural gas	169,832	230,003	139,732
Storage and regasification capacity	93,785	93,744	93,652
Natural Gas Distribution Business	99,235	109,330	81,411
Transportation of natural gas	44,335	56,915	95,520
Other operating revenues	102,309	110,333	118,315
	US$ 677,836	**US$ 822,796**	**US$ 671,703**

Other operating revenues

In November 2009 IEnova LNG entered into an agreement with SLNG International LLC, or LNG International, a related party, whereby LNG International agreed to deliver and sell LNG cargoes to IEnova LNG from the date of commencement of commercial operation of our LNG terminal. Accordingly, IEnova LNG entered into a transportation and storage services agreement to market the LNG.

In 2013, 2014 and 2015 LNG International did not deliver LNG to IEnova LNG pursuant to their LNG supply contract and, accordingly, indemnified IEnova in the amount of US$90.9 million, US$90.8 million and US$101 million, respectively, for the fixed costs associated with terminal and pipeline capacity. These payments are presented within revenues in our consolidated statements of profit.

c) Material Financing Arrangements

Revolving Loan Agreement with Sumitomo Mitsui Banking Corporation On August 21, 2015 we entered into a five-year, US$400 million revolving loan agreement with Sumitomo Mitsui Banking Corporation, Banco Santander (México), The Bank of Tokio-Mitsubishi UFJ, LTD., and Bank of Nova Scotia. We intend to use the proceeds from this loan to finance our working capital requirements and for general corporate purposes. This loan accrues interest at a rate equal to the three-month LIBOR plus 90 basis points. On December 23, 2015, we made a US$310.0 million disbursement under this facility, and on the same date we repaid US$219 million. On December 22, 2015, we entered into an amendment agreement to the revolving loan agreement in order to increase the amount available under this facility to US$600 million. As of December 31, 2015, we had US$509 million available under this facility.

Our obligations under the loan agreement include, among others, the following: deliver to the lenders our 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 our obligations under the Mexican Securities Market Law; maintain such assets as are necessary to conduct our business; maintain insurance coverage in respect of our material assets; take such actions as may be necessary for our obligations under the agreement to rank at least *pari passu* with our 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 our Total Assets (as defined in the agreement), with certain exceptions set forth in the agreement.

Revolving Loan Agreement with Banco Santander (México) On June 19, 2014, we entered into a three-year, US$200 million revolving loan agreement with Banco Santander (México). This loan accrues interest at a rate equal to the three-month LIBOR plus 105 basis points, payable on a quarterly basis. We used the proceeds from this loan to finance our working capital requirements and for general corporate purposes. As of December 31, 2014, we had made disbursements totaling US$145 million and had US$55 million available under this facility. On August 26, 2015, we prepaid in full the outstanding balance of this loan.

Revolving Loan Agreement with Sumitomo Mitsui Banking Corporation On August 25, 2014, we entered into a three-year, US$100 million revolving loan agreement with Sumitomo Mitsui Banking Corporation. This loan accrues interest at a rate equal to the three-month LIBOR plus 105 basis points, payable on a quarterly basis. We used the proceeds from this loan to finance our working capital requirements and for general corporate purposes. As of December 31, 2014, we had made disbursements totaling US$51 million, which were reported under short-term in our financial statements since we intended to repay them within the short-term, and had US$49 million available under this facility. On August 24, 2015, we prepaid in full the outstanding balance of this loan.

Public Offering of Notes On February 14, 2013, we issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (US$408 million, based on the exchange rate of Ps.12.7364 to US$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 (US$306 million), and a series of 5-year floating-rate Notes in the principal amount of Ps.1.3 billion (US$102 million) that accrue interest at the TIIE rate plus 30 basis points.

We used a portion of the proceeds from the sale of both series of Notes, or approximately US$405 million, to repay approximately US$356 million in outstanding indebtedness with affiliates and for general corporate purposes, including financing our working capital requirements and the development of new pipeline projects.

Our obligations under the Notes include, among others, the following: comply in all material respects with our 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 of consolidation expressly agrees to assume our 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, we entered into certain swap agreements to hedge our exposure to changes in interest rates and to our Mexican peso-denominated obligations under the Notes. These included the following:

(a) A swap agreement pursuant to which we replaced the fixed, Mexican peso-denominated interest rate on our 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 we replaced the floating, Mexican-peso denominated interest rate on our 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 US$408.3 million (Ps.5.2 billion).

These agreements have been designated as cash flow hedges.

Loan Agreements with Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada In March 2015 we entered into a US$90 million loan agreement and a US$30 million loan agreement with our 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, we 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.*

Revolving Loan Agreement with Sempra Energy Holding XI B.V. On December 22, 2015, we entered into a 12-month, US$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.

As of December 31, 2013, 2014 and 2015, and as of the date of this report, we were in compliance with our 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

You should read the information below together with our audited financial statements as of and for the years ended December 31, 2013, 2014 and 2015, as well as the other financial information included elsewhere in this report. Our 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. Our 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.

Our Business Segments

Our assets are divided between two business segments:

- our gas segment, which includes natural gas and LPG transportation through our pipelines and storage, natural gas compression, ethane transportation through our ethane pipeline, LNG storage, and natural gas distribution;

- our power segment, which includes a natural-gas-fired, combined-cycle power generation facility and a wind powered generation project that began commercial operation in 2015.

In addition, certain revenue and costs that are not directly attributable to either of our operating segments are reported as corporate revenue and expenses, which we refer 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.

Within our gas segment, our pipelines business owns and operates systems for receiving, transporting, storing and delivering natural gas and LPG. These systems (excluding the Los Ramones Norte pipeline) include more than 1,400 km of natural gas pipelines (of which approximately 820 km are under construction), 190 km of LPG pipelines, six natural gas compression stations and an LPG storage facility. We own some of our pipeline assets through our joint venture with Pemex TRI, in which we hold a 50% interest. Our gas segment also includes our LNG business, which owns and operates a 320,000 m^3 LNG storage and regasification terminal, as well as a natural gas marketing concern that purchases LNG and for storage and regasification at the LNG terminal and sells natural gas to to third-party customers and affiliated entities. Our natural gas distribution utility, Ecogas, is the third main business within our gas segment. This utility distributes natural gas to approximately 106,000 industrial, commercial and residential customers in three distribution zones in northern Mexico. Our pipelines business and LNG business have long-term contracts, primarily on a firm basis, with creditworthy, recognized industry leaders, including Shell, Gazprom, the Mexican Federal Electricity Commission, InterGen, TransCanada and Pemex TRI.

Within our power segment, we own and operate our Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility. Prior to 2012, this power plant had generated revenues by selling electricity to our U.S. affiliate Sempra Generation. Under a new agreement effective January 1, 2012, we sell this electricity to consumers in California's Independent System Operator power grid, and Sempra Generation acts as marketing and scheduling agent for these sales. Additionally, we are developing in phases a wind power generation project, Energía Sierra Juárez, in Baja California. The first phase of the project became operational in July 2015.

Mexican Economic Environment

Substantially all of our operations are conducted in Mexico. As a result, our business, financial condition and results of operations depend on and may be affected by the general condition of the Mexican economy, over which we have no control.

After being significantly impacted by the global economic crisis that began in 2008, Mexico's GDP fell 6.1% in 2009, the sharpest decline since 1932, according to the World Bank. In 2013, 2014 and 2015, Mexico's GDP grew by 1.1%, 2.1% and 2.5%, respectively.

We expect that current macroeconomic dynamics in Mexico will create opportunities for growth in the energy infrastructure sector over the next several years as demand for energy resources continues to grow. With respect to the energy sector in which we operate, natural gas prices have been low in recent years in Mexico due to the rapid rise in U.S. production of shale gas. The cost of natural gas in North America affects the demand for imported LNG, which is driven by the cost of natural gas elsewhere in the world relative to North America. Although the revenue we generate under firm services agreements is generally stable, natural gas prices impact our LNG marketing operations as well as our natural gas distribution business to the extent they affect demand for natural gas. See "Factors Affecting Our Results of Operations – Revenue" and "Risk Factors."

Factors Affecting Our Results of Operations

The following are certain key factors that affect, or have recently affected, our results of operations. These should be read in conjunction with the risks and uncertainties discussed under "Risk Factors."

Revenues

Revenue generated by each of our businesses is affected by the following factors:

- Our businesses are subject to regulation and permitting requirements of federal, state and local governmental entities in Mexico. Although certain rates we charge customers for certain services are not regulated, many prices, fees and rates we charge customers in our gas and power segments require approval from the Mexican Energy Regulatory Commission. Accordingly, we cannot unilaterally modify these prices, fees and rates, which restricts our operational flexibility. The Mexican Energy Regulatory Commission adjusts regulated rates periodically in accordance with applicable regulations, and we have no control over these adjustments. Although the established prices, fees and rates are generally based on costs, our profit could decrease if we are unable to raise prices or rates to keep up with costs.

- We depend on a limited number of customers with whom we have 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 we are unable to collect payments from customers under these agreements for any of these reasons or otherwise, our revenue could decrease.

- Our 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 our subsidiary IEnova LNG, which purchases LNG for storage and regasification at our LNG terminal. Each of our 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 LNG generates revenues by purchasing LNG for storage and regasification in our LNG terminal, and selling natural gas that is consumed by the Mexican Federal Electricity Commission at its Presidente Juárez power

plant, by our 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 LNG also generates revenues from payments it receives to the extent its LNG supplier, our U.S. affiliate Sempra Natural Gas, does not deliver LNG to IEnova LNG 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 LNG by Sempra Natural Gas. Accordingly, we also depend 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 LNG have been sufficient to compensate IEnova LNG for the storage and transportation costs incurred by IEnova LNG resulting from Sempra Natural Gas' failure to deliver required LNG cargoes. See "Certain Relationships and Related Party Transactions" and Note 26.5 to our audited financial statements included elsewhere in this report.

- The price of natural gas is subject to market conditions beyond our control. See "– Cost of Natural Gas." 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 our natural gas business, is derived from natural gas distribution fees and other related services. Accordingly, total revenue for our natural gas distribution business is impacted by market swings in natural gas prices and our customers' preference for natural gas relative to other energy sources, such as LPG, which is subsidized by the Mexican government, and the profit derived from distribution fees and other related services can decrease in response to decreases in overall demand for natural gas.

- Our revenue from sales of natural gas depends on several factors beyond our control. Currently, LPG prices are subsidized by the Mexican government, which puts our Ecogas distribution system's unsubsidized natural gas product at a competitive disadvantage. If the LPG price subsidy policy of the Mexican government continues and we are not able to obtain competitively priced natural gas relative to the LPG that is available to our customers and potential customers through our competitors, our natural gas distribution business could experience lower revenue and profits.

- Customer demand in our 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 our revenue and profits.

- The markets and pipelines to which we deliver natural gas and LPG typically establish minimum quality specifications for the natural gas and LPG we deliver. These specifications can vary by pipeline or markets. If the quality of natural gas or LPG that we deliver 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 us for the costs to handle the non-conforming products. In those circumstances, we may be required to find alternative markets for the delivery or stop accepting non-conforming product into our pipelines, which could reduce our through-put volumes or revenue.

- We may use forward contracts, physical purchase and sales contracts, futures, financial swaps and options in the ordinary course of our business. We use these instruments for hedging purposes. However, they are not reflected as hedges in our financial statements because they do not qualify for hedge accounting due to certain technical requirements. We do not hedge the entire exposure to market price volatility of our assets or our 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 we do not hedge our exposure to market price volatility or our contract positions correctly, we could incur losses.

- Our 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, we could face competition from other distributors of natural gas in all of our distribution zones.

Cost of Natural Gas

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:

- Our results are affected by energy prices, including market prices for natural gas, LNG, electricity, LPG and petroleum. If our customers or suppliers fail to fulfill their obligations under their contracts with us, we may be required to enter into alternative arrangements to honor underlying commitments by making purchases from other suppliers at then-current market prices.

- Our LNG business is also impacted by worldwide LNG market prices. High LNG prices in markets outside the market in which our LNG terminal operates have resulted and could continue to result in lower than expected deliveries of LNG cargoes to our LNG terminal, which could increase our costs if we do 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 our ability to maintain the minimum level of LNG required to keep our LNG terminal in operation. LNG market prices also affect our LNG marketing operations, through which we must purchase natural gas in the international market to meet our contractual obligations to deliver natural gas to our customers, which could have an effect on our profit. See "–Revenue."

- Currently, our Ecogas natural gas distribution business relies on two third parties, Pemex TRI and British Petroleum, and an affiliate, SoCalGas, for the supply of natural gas that we distribute to our customers. If any of these key suppliers fails to perform and we are unable to obtain supplies of natural gas from alternate sources, we could lose customers and sales volume and, in some cases, we 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 our income tax expense. We have U.S. dollar-denominated receivables and payables that are subject to Mexican currency exchange rate movements for Mexican income tax purposes. We also have 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, we adjust our monetary assets and liabilities for Mexican inflation for purposes of determining our Mexican income tax expense. See Note 22.7 to our audited financial statements, included elsewhere in this report.

Under IFRS, we are 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 our U.S. dollar functional currency subsidiaries. The impact from this period-end conversion for property, plant and equipment can result in significant fluctuations in our income tax expense and deferred income tax balances. See Note 23.1 to our audited financial statements, included elsewhere in this report.

Mexican Income Tax Reforms

On September 8, 2013, Mexican President Enrique Peña Nieto announced a proposed tax reform that included the adoption of a new Mexican Income Tax Law and the repeal of the Mexican Business Flat Tax Law. A decree enacting such reform was published in the Mexican Official Gazette on December 11, 2013, and took effect on January 1, 2014. The principal effects of this tax reform on our consolidated financial statements included the following:

- *Mexican federal income tax rate.* While the previous regime had provided for a decrease in the Mexican income tax rate to 28% in 2014 and thereafter, the new Mexican Income Tax Law set such rate at 30%. This resulted in an approximately US$15 million increase in our deferred income tax expense for 2013, and we anticipate that it will give rise to an approximately US$27 million increase in our income tax liabilities during the period from 2014 to 2018.

- *Consolidation of income tax liabilities.* The previous framework for income tax consolidation was replaced with a new regime under which income tax assets resulting from such consolidation are subject to recapture within three as opposed to five years. As a result of this change, in 2014 we were required to make an advanced payment of approximately US$87 million, which was reported under short-term income tax liabilities in our consolidated statement of financial position. In addition, because we may no longer offset our income tax assets and liabilities, the income tax receivables and liabilities of our subsidiaries as of December 31, 2013 are included in their consolidated statements of financial position under separate items.

- *Dividends.* Under the new Mexican Income Tax Law, effective January 1, 2014, dividends paid by Mexican companies to persons who are non-Mexican residents for tax purposes are generally subject to Mexican income tax withholding at a rate of 10%. However, dividends paid out earnings for which a company paid income taxes prior to January 1, 2014, are exempt from taxation under the new Mexican Income Tax Law.

i) **Results of Operations for the Years Ended December 31, 2013, 2014 and 2015**

The following table sets forth our profit for the years ended December 31, 2013, 2014 and 2015, and the change from our profit for 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			
	2013	2014	2015	2014 vs. 2013		2015 vs. 2014	
Revenues	US$ 677,836	US$822,796	US$671,703	US$144,960	21.4%	(151,093)	18.4%
Cost of revenues	(328,817)	(443,298)	(286,597)	(114,481)	(34.8)%	156,701	35.3%
Operating, administrative and other expenses	(99,685)	(98,384)	(104,213)	1,301	1.3%	(5,829)	5.9%
Depreciation and amortization	(61,164)	(61,943)	(67,682)	(779)	(1.3)%	(5,739)	(9.3)%
Interest income	1,372	3,299	6,743	1,927	n.m.	3,444	n.m.
Finance (costs) income	(5,035)	1,143	(10,103)	6,178	n.m.	(11,246)	n.m.
Other (losses) gains	6,986	1,258	(11,575)	(5,728)	82.0%	(12,833)	n.m.
Profit before income taxes and share of profits of joint ventures	191,493	224,871	198,176	33,378	17.4%	(26,695)	11.8%
Income taxes	(83,792)	(111,283)	(100,406)	(27,491)	(32.8)%	10,877	9.8%
Share of profits of joint ventures, net of income taxes	34,689	23,346	42,319	(11,343)	(32.7)%	18,973	81.3%
Profit for the year	US$ 142,390	US$ 136,934	US$ 140,189	US$(5,456)	(3.8)%	US$ 3,255	2.4%

Profit for the year

The following table sets forth our profit by reportable segment for the years ended December 31, 2013, 2014 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			
	2013	2014	2015	2014 vs 2013		2015 vs 2014	
Profit for the year							
Gas segment	US$180,296	US$161,120	US$179,049	US$(19,176)	110.6	US$ 17,929	11.1%
Power segment	8,567	28,611	(4,362)	20,044	n.m.	(32,973)	n.m.
Corporate	(46,473)	(52,797)	(34,498)	(6,324)	13.6%	18,299	(34.7)%
Total profit for the year	US$142,390	US$136,934	US$140,189	US$(5,456)	(3.8)%	US$ 3,255	2.4%

Unless otherwise noted, all variance amounts below in the discussion of profit for the year are presented after tax impact.

Gas Segment

In 2015, gas segment profit increased by US$17.9 million, or 11.1%, compared to 2014, primarily due to a full year of operations of the Sásabe–Puerto Libertad segment of the Sonora pipeline in 2015 compared to 2014.

In 2014, gas segment profit decreased by USD$19.1 million, or 10.6%, compared to 2013, primarily due to the capitalization of interest expenses, and the start of operations of the Sásabe-Puerto Libertad segment of the Sonora Pipeline.

Power Segment

In 2015, power segment profit decreased by US$32.9 million compared to 2014, primarily due to lower operational results at the power plant and to a one-time gain, in 2014, from the sale of a 50% interest in our Energía Sierra Juárez wind power generation project.

In 2014, power segment profit for the year increased by USD$20.0 million, compared to 2013, primarily due to improved results, lower scheduled maintenance expenses at the power plant and a gain on the sale of our 50% equity interest in the first phase of the Energía Sierra Juarez, wind power generation project.

Corporate

In 2015, corporate loss decreased by US$18.2 million compared to 2014, primarily due to lower income tax expense as a result of the effect of exchange rate on monetary assets and liabilities, partially offset by changes in the deferred income tax balance resulting from the fluctuation in the tax basis of property, plant and equipment at our US$ dollar functional currency, which are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate.

In 2014, corporate loss before tax for the year increased by USD$6.3 million compared to 2013, principally due to mark-to-market losses in 2014 compared to mark-to-market gains in 2013 on the valuation of an interest rate swap.

Revenues

The following table sets forth our revenues by reportable segment for the years ended December 31, 2013, 2014 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			
	2013	2014	2015	2014 vs 2013		2015 vs 2014	
Revenues							
Gas segment	US$ 507,814	US$598,183	US$526,439	US$ 90,369	17.8%	US$(71,744)	(12.0)%
Power segment	168,340	222,471	143,498	54,131	32.2%	(78,973)	(35.5)%
Corporate	1,682	2,142	1,766	460	27.3%	(376)	(17.6)%
Total revenues	US$ 677,836	US$822,796	US$671,703	US$144,960	11.6%	US$(151,093)	(18.4)%

<u>*Gas Segment*</u>

In 2015, gas segment revenues decreased by US$71.7 million, equivalent to 12.0% compared to 2014, primarily due to lower natural gas prices of US$111.7 million, partially offset by higher revenues from a full year of operations of the Sásabe–Puerto Libertad segment of the Sonora pipeline in 2015 compared to 2014.

In 2014, gas segment revenue increased by USD$90.4 million, equivalent to 17.8% compared to 2013, primarily due to higher sales prices and volumes of USD$74.5 million and the start of operations of the Sásabe-Puerto Libertad segment of the Sonora Pipeline project.

<u>*Power Segment*</u>

In 2015, power segment revenues decreased by US$78.9 million, equivalent to 35.5%, in 2015 compared to 2014, primarily due to lower electricity prices, lower volume sold and lower capacity revenues.

In 2014, power segment revenue increased by USD$54.1 million, equivalent to 32.2% compared to 2013, due to higher power demand and the impact of scheduled maintenance in 2013.

<u>*Corporate*</u>

Corporate revenues remained stable in 2015 compared to 2014, and in 2014 compared to 2013.

Cost of revenues

The following table sets forth our cost of revenues by reportable segment for the years ended December 31, 2013, 2014 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			
	2013	2014	2015	2014 vs 2013		2015 vs 2014	
Cost of revenues							
Gas segment	US$199,053	US$277,341	US$178,654	US$78,288	39.3%	US$(98,687)	(35.6)%
Power segment	129,764	165,957	107,943	36,193	27.9%	(58,014)	(35.0)%
Total cost of revenues	US$328,817	US$443,298	US$286,597	US$114,481	34.8%	US$(156,701)	(35.3)%

Gas Segment

In 2015, gas segment cost of revenues decreased by US$98.7 million, equivalent to 35.6%, compared to 2014, primarily due to lower cost of natural gas.

In 2014, natural gas cost of revenues increased by USD$78.3 million, equivalent to 39.3%, compared to 2013, primarily due to an increase in natural gas prices and volumes.

Power Segment

In 2015, power segment cost of revenues decreased by US$58.1 million, equivalent to 35.5%, compared to 2014, primarily due to lower natural gas prices and lower volume.

In 2014, power segment cost of revenues increased by USD$36.2 million, equivalent to 27.9%, compared to 2013, primarily due to higher natural gas prices and volume.

Operating, administrative and other expenses

In 2015, operating, administrative and other expenses of US$104.2 million compared to USD$98.4 million in 2014, primarily due to the expenses related to the development of new projects.

In 2014, total operating, administrative and other expenses were relatively stable compared to 2013, primarily due to lower scheduled maintenance expenses at the power plant, partially offset by higher administrative expenses.

Depreciation and amortization

In 2015, depreciation and amortization expenses of US$67.7 million, compared to US$61.9 million in 2014, primarily due to the start of operations of the Sásabe–Puerto Libertad segment of the Sonora pipeline.

Depreciation and amortization expenses remained relatively stable in 2014 compared to 2013.

Finance (costs) income

In 2015, net financing cost was $3.4 million compared to net financing income of $4.4 million in 2014. The variance of $7.8 million is mainly due to capitalization of interest, in 2014, related to the Sonora pipeline.

In 2014, financing costs decreased by USD$6.2 million, compared to 2013, primarily due to higher capitalization of interest for the construction of the Sonora Pipeline.

Other (losses) gains

In 2015, other losses were USD$11.6 million compared to other gains of USD$1.3 million in 2014. The variance of USD$12.9 million is mainly due to: USD$19.1 million gain in 2014 on the sale of our 50 percent equity interest in Energía Sierra Juárez wind generation facility, partially offset by USD$6.7 million of lower mark-to-market losses on the valuation of an interest rate swap.

In 2014, other gains decreased by USD$5.7 million, equivalent to 82.0% compared to 2013, primarily due to mark-to-market losses on the valuation of an interest rate swap in 2014, compared to mark-to-market gains in 2013 and higher foreign exchange losses on peso-denominated balances partially offset by the gain on the sale of our 50% equity interest in the first phase of the Energía Sierra Juarez wind power generation project.

Income taxes

Income tax expense remained relatively stable in 2015 compared to 2014.

In 2014, income tax amounted to USD$111.3 million. The increase was due to changes in the Company's deferred tax balance resulting from the fluctuation in the tax basis of property, plant and equipment that are valued in pesos for the purposes of taxation and depend on the exchange rate, which were partially offset by the effects of the 2013 Tax Reform.

Share of profits of joint ventures, net of income taxes

In 2015 our share of profits of joint ventures, net of income tax, which we account for using the equity method, increased by US$18.9 million compared to 2014, to US$42.3 million. This increase was due primarily to an increase in profits at our joint venture with Pemex TRI as a result of a full year of operations of the Los Ramones I pipeline and the start of operations of the Ethane pipeline throughout 2015.

In 2014, the Company's share of profits from joint ventures, net of income tax, which we account for using the equity method, was USD$23.3 million; a decrease of USD$11.3 million compared to 2013, mainly due to higher income tax costs, interest and foreign exchange losses on peso-denominated balances.

Adjusted EBITDA

The following table sets forth our Adjusted EBITDA by reportable segment for the years ended December 31, 2013, 2014 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			
	2013	2014	2015	2013 vs 2012		2014 vs 2013	
Adjusted EBITDA							
Gas segment	US$289,592	US$300,558	US$367,224	US$ 10,966	3.8%	US$ 66,666	22.2%
Power segment	14,604	36,009	24,975	21,405	146.6%	(11,034)	30.6%
Corporate	(1,111)	323	(385)	1,434	129.1%	(708)	219.2%
Total Adjusted EBITDA	US$303,085	US$336,890	US$391,814	US$ 33,805	11.2%	US$ 54,924	16.3%

The following table contains a reconciliation of our profit for the year and our Adjusted EBITDA for the years ended December 31, 2013, 2014 and 2015.

(in thousands of U.S. dollars)	Year ended December 31,		
	2013	2014	2015
Profit for the year	US$ 142,390	US$ 136,934	US$ 140,189
Depreciation and amortization	61,164	61,943	67,682
Interest income	(1,372)	(3,299)	(6,743)
Finance (costs) income	5,035	(1,143)	10,103
Other (losses) gains	(6,986)	(1,258)	11,575
Income taxes	83,792	111,283	100,406
Share of depreciation and amortization, interest income, finance (costs) income, and income taxes, of joint ventures	19,062	32,430	68,602
Adjusted EBITDA	US$ 303,085	US$ 336,890	US$ 391,814

For our definition of adjusted EBITDA, an explanation of why we present it and a discussion of its limitations, see "Presentation of Financial and Other Information – Adjusted EBITDA."

ii) **Financial Condition, Liquidity and Capital Resources**

Overview

Historically, we have generated, and we expect to continue to generate, positive cash flow from operations. Our principal capital needs are for working capital, capital expenditures related to maintenance, expansions and acquisitions, and debt service. Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations, the terms of our financing arrangements, and our access to capital markets. We believe that our future cash from operations, together with our access to debt financing and the equity capital markets, will provide adequate resources to fund our operating activities, capital expenditures, acquisitions and new business development activities.

A substantial portion of the capacity of the assets across our business segments is under long-term agreements with customers, which provides us with a generally steady and predictable cash flow stream. Our 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 our business. Cash flows used in investing activities represent investments in property, plant and equipment required for our 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 our business, repayments of indebtedness with cash from operations, refinancing transactions and payments of dividends.

We expect that our cash flows from operations, as well as our capacity for future borrowings, will be sufficient to finance our liquidity requirements for the foreseeable future. We are also subject to certain capital requirements imposed by governmental agencies on our regulated pipelines and natural gas distribution businesses.

Liquidity

We are a holding company. As a result, our ability to meet our obligations depends primarily on the earnings and cash flows of our subsidiaries and our investments in joint ventures, and the ability of those subsidiaries or joint ventures to pay dividends or distribute other amounts to us.

Capital Resources; Use of Proceeds

	Year ended December 31,		
(in thousands of U.S. dollars)	**2013**	**2014**	**2015**
Net cash provided by operating activities	US$ 162,760	US$ 163,217	US$ 168,179
Net cash provided by (used in) investing activities	(576,699)	(267,964)	(248,796)
Net cash provided by (used in) financing activities	436,244	83,939	41,892
Cash and cash equivalents at the end of the year	103,880	83,637	40,377

Operating Activities

In 2015, net cash provided by operating activities was US$168.2 million, compared to US$163.2 million in 2014. This increase was due primarily to a change in our working capital, partially offset by our interest expense.

Net cash provided by operating activities in 2014 was US$163.2 million, consistent with the US$162.8 million in 2013.

Investing Activities

We maintain financial resources sufficient to meet our financial commitments related to capital expenditures and other investing activities and those of our subsidiaries.

In 2015, net cash used in investing activities was $248.8 million, due to capital expenditures of $300.1 million for our Sonora, Ojinaga and San Isidro pipeline projects, partially funded by proceeds from repayment of loans from unconsolidated affiliates of $41.6 million and a $10.0 million decrease in short-term investments.

In 2014, net cash used in investment activities was USD$268.0 million, primarily due to acquisitions of property, plant and equipment to the value of USD$325.5 million and USD$162.8 million of loans granted to unconsolidated subsidiaries, partially offset by proceeds from a reduction of short-term investments of USD$177.0 million and a net cash inflow of USD$24.4 million from the sale of our 50% equity interest in the first phase of the Energía Sierra Juárez wind power generation project and USD$19.9 million of loans repayments to related parties.

Financing Activities

In 2015, net cash provided by financing activities was $41.9 million, due to loans from banks and unconsolidated affiliates of $834.7 million, partially offset by a $600.1 million repayment of bank loans, a dividend payment of $170.0 million and interest paid of $20.2 million.

In 2014, net cash provided by financing activities was USD$83.9 million due to significant sources and uses of bank loans of USD$278.4 million, dividend payment of $164.0 million and interest payments of $18.9 million.

Summary of Relevant Financial Position Data

Consolidated Statements of Financial Position Data	**As of December 31,**		
(in thousands of U.S. dollars)	**2013**	**2014**	**2015**
Property, plant and equipment, net	US$ 2,213,837	US$ 2,377,739	US$ 2,595,840
Total assets	3,241,908	3,380,218	3,507,082
Current liabilities	193,089	367,550	543,341
Total non-current liabilities	732,407	763,380	783,877
Total liabilities	925,496	1,130,930	1,327,218
Total stockholders' equity	2,316,412	2,249,288	2,179,864

Changes in our consolidated statements of financial position relate primarily to our investment in the development of new projects, including the Sonora pipeline, the Ojinaga–El Encino pipeline and the San Isidro–Samalayuca pipeline.

As of the date of this report, our short-term liabilities exceed our current assets, primarily as a result of our loans from unconsolidated affiliates. As further described in Notes 19 and 22 to our financial statements, we have US$509 million available under credit facilities and US$400 million available under our Notes program.

Financial Ratios

	Year ended December 31,		
	2013	**2014**	**2015**
Current assets/current liabilities	2.6x	0.9x	0.4x
Total liabilities/total assets	29%	33%	38%
Total liabilities/stockholders' equity	40%	50%	61%
Accounts receivable turnover ratio	38 days	29 days	32 days

Debt

Historical

(in thousands of U.S. dollars)	As of December 31, 2013	2014	2015
Short-term debt	–	US$ 195,089	US$ 88,507
Short-term debt with unconsolidated affiliates	–	–	339,600
Long-term debt with unconsolidated affiliates	38,893	38,460	38,460
Long-term debt related to the Notes	408,000	408,000	408,000

On February 14, 2013, we issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (US$408 million, based on the exchange rate of Ps.12.7364 to US$1.00 published by the Banco de México on February 12, 2013), for sale in connection with a public offering in Mexico: a series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion, and a series of floating-rate Notes in the principal amount of Ps.1.3 billion which accrue interest at the TIIE rate plus 30 basis points. We used a portion of the proceeds from the sale of both series of Notes, or approximately US$405 million, to repay approximately US$356 million in outstanding indebtedness with affiliates and to finance the purchase of property, plant and equipment.

On June 19, 2014, we entered into a three-year, US$200 million revolving loan agreement with Banco Santander (México). This loan accrues interest at a rate equal to the three-month LIBOR plus 105 basis points.We used the proceeds from this loan to finance our working capital requirements and for general corporate purposes. As of December 31, 2014, we had made disbursements totaling US$145.0 million. On August 26, 2015, we prepaid in full the outstanding balance of this loan.

On August 25, 2014, we entered into a three-year, US$100 million revolving loan agreement with Sumitomo Mitsui Banking Corporation. This loan accrues interest at a rate equal to the three-month LIBOR plus 105 basis points.We used the proceeds from this loan to finance our working capital requirements and for general corporate purposes. As of December 31, 2014, the outstanding balance under this loan was US$49.0 million. On August 24, 2015, we prepaid in full the outstanding balance of this loan.

On August 21, 2015 we entered into a five-year, US$400 million revolving loan agreement with Sumitomo Mitsui Banking Corporation, Banco Santander (México), The Bank of Tokio-Mitsubishi UFJ, LTD., and Bank of Nova Scotia. We intend to use the proceeds from this loan to finance our working capital requirements and for general corporate purposes. This loan accrues interest at a rate equal to the three-month LIBOR plus 90 basis points. On December 23, 2015, we made a US$310.0 million disbursement under this facility, and on the same date we repaid US$219 million. On December 22, 2015, we entered into an amendment agreement to the revolving loan agreement in order to increase the amount available under this facility to US$600 million. As of December 31, 2015, we had US$509 million available under this facility.

On March 2, 2015, we entered into a US$90 million loan agreement and a US$30 million loan agreement with our 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. We used the proceeds from these loans to finance our working capital requirements and for general corporate purposes. 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, we 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 22, 2015, we entered into a 12-month, US$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. We used the proceeds from this loan to finance our working capital requirements and for general corporate purposes. This loan accrues interest at equal to LIBOR plus 0.17%, payable on a quarterly basis.

As of December 31, 2015, all of our long-term debt to unconsolidated affiliates was owed to out indirect controlling shareholder or its subsidiaries. We made interest payments of US$1.4 million in 2015, US$1.6 million in

2014 and US$2.8 million in 2013, and principal payments of US$0.6 million in 2014 and US$388.0 million in 2013 in connection with this debt. Our affiliate loans as of December 31, 2015 had maturities ranging from May 2017 through December 2027 and accrued interest at average annual rates ranging from 2.7% to 3.3%. See Note 6.3 to our audited financial statements, included elsewhere in this report.

Capital Expenditures

We expect to continue various strategies of making investments in the energy infrastructure sector in Mexico that are capable of generating stable cash flows as well as expanding into related businesses to increase our revenue and profitability. We intend 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 our network of energy assets in Mexico;
- continuing to focus on assets that produce stable cash flows; and
- maximizing the efficiencies and profitability of our current energy assets.

In 2015, 2014 and 2013 we made capital expenditures of US$300.1 million, US$325.5 million and US$369.7 million, respectively. These capital expenditures mainly included expenditures related to acquisitions of property, plant and equipment for the development of our Sonora pipeline and Energía Sierra Juárez wind power generation project.

We estimate that our capital expenditures for 2016, excluding expenditures made in connection with any business acquisitions, will be approximately US$476.0 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 our expected capital expenditures by business segment in 2016, 2017 and 2018 (excluding capital expenditures in connection with our joint venture with Pemex TRI):

(in millions of U.S. dollars)	Gas Segment	Power Segment
2016		
Property, plant and equipment	US$ 474	US$ 2
2017		
Property, plant and equipment	US$ 77	US$ 0
2018		
Property, plant and equipment	US$ 20	US$ 0

Contractual Arrangements

Historical

The following table contains a summary of our contractual obligations as of December 31, 2015, after giving effect to the undiscounted cash flows associated with our financial liabilities based on the earliest date on which we will be required to pay and including the cash flows associated with payments of both principal and interest:

(in thousands of U.S. dollars)	Less than one year		1–2 years		3-5 years		More than 5 years		Total	
Due to unconsolidated affiliates	US$	365,937	US$	2,570	US$	33,599	US$	–	US$	402,106
Notes		17,807		35,615		233,359		85,610		372,391
Bank loans		92,523		–		–		–		92,523
Derivative financial instruments		2,062		(27,032)		(1,661)		(106,759)		(133,390)
Total	US$	478,329	US$	11,153	US$	265,297	US$	(21,149)	US$	733,630

In the ordinary course of business, we also enter into long-term supply arrangements with affiliates that are not reflected in the table above. In addition, in connection with our transactions with derivative financial instruments we are 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, 2015, we did not have any off-balance sheet arrangements.

iii) Internal Controls

Our management is responsible for maintaining a system of internal control over financial reporting. This system gives our shareholders a reasonable assurance that our transactions are executed and maintained in accordance with the guidelines set forth by our management and that our financial records are reliable as a basis for preparing our 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, we maintain reliable databases and have modern and efficient systems designed to generate key financial information in real time. These systems also facilitate the efficient preparation of our financial reports.

To fulfill its responsibilities regarding the integrity of financial reporting, our management maintains and relies on our 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.

Our 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 our organization; and
- provide administrative control methods to help oversee and monitor compliance with our policies and procedures.

We have manuals that establish our policies and procedures regarding the implementation and promotion of our business, the control and monitoring of transactions involving the acquisition, promotion, distribution or sale of our subsidiaries, and the controls in the areas of human resources, finance, accounting, legal, tax and data processing, among others.

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 Note 22.

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 our expected purchase, sale or usage requirements fall within the "own use" exemption (also called the "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 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 and a certain interest rate swap agreement. 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 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.

For a description of the interest rate swaps that we entered into in connection with the Notes (or Cebures), see "- Interest Rate Risk Management".

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% confidence interval in its VaR calculations. The one-day 95% VaR number reflects the 95% 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,**					
	2013		**2014**		**2015**	
Interest rate swaps	US$	4,061	US$	4,606	US$	3,761
Natural gas purchase and sale		31		–		–
Total VaR exposure		3,887		4,376		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. See Note 22.7 to our 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. Any residual exposure is monitored as described above.

Foreign Currency Risk Management

The Company has investments in entities whose functional currency is not the U. S. Dollar; also, 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:

(in thousands of U.S. dollars)	As of December 31, 2013		2014		2015	
Monetary assets						
U.S. dollar-functional currency subsidiaries	US$	194,573	US$	174,435	US$	159,824
Mexican peso-functional currency subsidiaries		34,920		26,011		30,110
Monetary liabilities						
U.S. dollar-functional currency subsidiaries	US$	695,450	US$	593,099	US$	585,062
Mexican peso-functional currency subsidiaries		38,188		37,531		31,713

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, IVA, ISR and IETU 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, their 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.

	12/31/2015		12/31/2014		12/31/2013		2/22/2015	
One U.S. dollar	Ps.	17.2065	Ps.	14.7180	Ps.	13.0765	Ps.	18.1439

Foreign Exchange Sensitivity Analysis

The Company's account balances disclosed in Note 22.7 above 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 or loss 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%, 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% 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% against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10% 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% against the Mexican Peso. For a 10% 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		
	2013	2014	2015	2013	2014	2015
Profit (loss) [1]	US$ 31,874	US$ 17,623	US$ 27,061			US$ 94
Other comprehensive income				US$ (208)	US$ (4,731)	US$ (5,692)

[1] 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 has increased during the years ended December 31, 2015, 2014 and 2013 mainly due to income tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2015, 2014 and 2013 mainly due to lower intercompany loans with unconsolidated affiliates.

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 in U.S. dollars 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 and 2013, there was one remaining interest rate swap agreement with a notional amount of $151,232 and $159,287 in U.S. Dollars under which IEnova received a variable interest rate (three-month LIBOR) and payed a fixed interest rate of 5.0%.

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 22.5.

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 our 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 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.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with our senior management and the senior management of our indirect controlling shareholder, who have established an adequate framework for managing our liquidity and funding requirements. During the year ended December 31, 2013, we financed the development of all of our projects with the proceeds from our initial public offering of shares and our public offering of Notes. See Notes 1.2.2 and 1.2.3 to our financial statements. Primarily as a result of our loans from unconsolidated affiliates, as of the date of this report our short-term liabilities exceed our current assets. As further described in Notes 19 and 22 to our financial statements, as of December 31, 2015 we had US$509 million available under credit facilities.

e) Critical Accounting Estimates, Provisions and Reserves

In the application of the accounting policies of the Company, which are described below, 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.

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and to subsequent periods.

Critical Judgments Used in Applying our Accounting Policies

The following are the critical judgments, apart from those involving estimations (see "key sources of estimation uncertainty" 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.

Finance Lease for Our Compression Station

The Company has a long-term natural gas compression arrangement with PGPB. The contract provides PGPB with the right to use 100% of the compression station's output for 20 years, with an additional five years, in return for fixed capacity payments.

Management has determined that the arrangement 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. See Note 9 to our 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 through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2015, 2014 and 2013 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. U. S. Generally Accepted Accounting Principles ("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 IFRSs. 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 which 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, our 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. Our 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, it is remote 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 Group'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 our consolidated statements of financial position.

Estimated Useful Life of Property, Plant and Equipment

As described in Note 2.14 to our 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 13.1 to our 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 22 to our 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 22 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 our 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 23 to our 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.

Calculation basis of Deferred Income Taxes

Until 2012, based on financial projections, the Company concluded that it essentially would pay ISR. Therefore, the Company recognized deferred income tax based on ISR. Beginning 2013, deferred income tax is calculated only based on ISR due to the repeal of IETU Law.

Measurement of Defined Benefit Obligations: Key Actuarial Assumptions

As described in Note 15 to our 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.

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. Our independent auditors were selected by our audit committee on the basis of their expertise and service and quality standards.

Galaz, Yamazaki, Ruiz Urquiza, S.C., are our 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 our financial statements.

Our audited financial statements included in this report have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C. In 2015 we paid our independent auditors fees of approximately US$1.2 million. In addition, in 2015 we paid Galaz, Yamazaki, Ruíz Urquiza, S.C. fees of approximately US$269,000 for other, non-auditing services that did not affect their independent status.

Business Address of our Directors and Senior Officers

The business address for all members of our 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 our directors and senior officers, or among our directors and senior officers and the directors and senior officers of our indirect controlling shareholder.

Legal Proceedings Involving our Directors or Senior Officers

As of the date of this report, there are no judicial or administrative proceedings pending against any of our directors and/or senior officers.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

b) Related Party Transactions and Conflicts of Interest

The following is a description of each transaction representing an amount in excess of US$120,000 to which we have been a party since January 1, 2013, and in which one or more of our directors, senior officers or their respective affiliates or family members, or our indirect controlling shareholder or its affiliates has had or will have a material direct or indirect interest. We believe that the terms of each such transaction and the consideration that we paid or received in connection therewith were comparable with the terms we would have obtained and the consideration we would have paid or received in an arm's length transaction with a third party.

In the ordinary course of our business we engage in a number of transactions with our indirect controlling shareholder and with companies that are owned or controlled, directly or indirectly, by our indirect controlling shareholder or its affiliates.

Intercompany Loan Agreements

Outstanding Loans from Related Parties as of December 31, 2015

We have revolving credit facilities in place with several affiliates of our indirect controlling shareholder as lenders. We 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, 2015:

Lender	Loan Limit	Principal Outstanding	Interest Rate	Maturity Date
Sempra Oil Trading	US$100 million	US$38.5 million	3.66% (the Applicable Federal Rate for medium-term U.S. Treasury bonds, plus 200 basis points)	March 18, 2017
Sempra Generation	US$12.0 million	US$0.0 million	2.7%	December 31, 2027
Sempra Energy Holding		US$219.6 million	Three-month LIBOR plus 0.17 basis points	December 23, 2016
Inversiones Sempra Latin America		US$90 million	1.75%	December 31, 2027
Inversiones Sempra Limitada		US$30 million	1.75%	December 31, 2027

Between January 1, 2013 and December 31, 2015, the largest aggregate amount outstanding (including principal and interest) under the credit facilities with Sempra Oil Trading and Sempra Generation was US$38.5 million and US$0.4 million, respectively. In that period we paid a total of US$53.2 million in principal and US$1.9 million in interest to Sempra Oil Trading, and US$1.0 million in principal to Sempra Generation. We repaid the full amount of principal and interest accrued on the Sempra Generation loan in 2014.

Loans to Related Parties

We made the following loans to affiliates of our indirect controlling shareholder since January 1, 2013:

- In 2014 we contributed an aggregate of US$123.9 million to TAG Norte through certain three-year loans that accrue interest at a floating rate equal to the one-month LIBOR plus 450 basis points. As of December 31, 2015, the total amount due from TAG Norte was US$85.9 million.

Guaranties and Letters of Credit

Our indirect controlling shareholder, Sempra Energy, provides credit support (including direct guaranties and letters of credit issued by third parties which are to be drawn on the account of Sempra Energy) for certain of our obligations, including the following:

Obligor	Beneficiary of Guaranty/Letter of Credit	Secured Obligations	Maximum Amount of Guaranty/Letter of Credit
Termoeléctrica de Mexicali	Rosarito pipeline system	Firm transportation services agreement dated February 26, 2002	US$29.4 million guaranty
IEnova LNG	Rosarito pipeline system	Interruptible transportation services agreement dated December 18, 2009	US$3.9 million guaranty
IEnova LNG	Rosarito pipeline system	Firm transportation services agreement dated May 01, 2008	US$59.6 million guaranty
IEnova LNG	Rosarito pipeline system	Firm transportation services agreement dated February 15, 2002	US$62.3 million guaranty
IEnova LNG	Transportadora de Gas Natural de Baja California	Firm transportation services agreement dated May 01, 2008	US$45.6 million guaranty
IEnova LNG	Energía Costa Azul	Firm storage services agreement dated November 29, 2004	US$282.0 million guaranty
Energía Costa Azul	Shell	Firm storage services agreement dated April 17, 2009	Unlimited guaranty
Energía Costa Azul	Gazprom	Firm storage services agreement dated April 17, 2009	Unlimited guaranty
Energía Sierra Juárez	Ejido Cordillera Molina	Lease agreement dated June 10, 2007	US$5.0 million guaranty
IEnova	Mexican Federal Electricity Commission	Letter of credit from Banco Santander (México), dated October 31, 2012, in favor of the Mexican Federal Electricity Commission	US$85.0 million guaranty
Rosarito pipeline system	Energía Azteca X, S. de R.L. de C.V.	Firm transportation services agreement dated February 08, 2002	US$5.0 million letter of credit
N/A	Travelers Casualty and Surety Co. of America	Performance bond issued by Travelers Casualty and Surety Co. of America, in favor of the Mexican government, in connection with the construction of the LNG terminal	US$3.9 million letter of credit
IEnova LNG	Mexican Federal Electricity Commission	Electricity supply agreement dated January 21, 2005	US$85.0 million letter of credit
IEnova LNG	Mexican Federal Electricity Commission	Letter of credit from BBVA (México), dated December 5, 2014, in favor of the Mexican Federal Electricity Commission	US$90.0 million letter of credit

Power Purchase Agreements

In January 2013 we entered into an electricity management agreement with our 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 our electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on our behalf. Under this agreement, we reimburse Sempra Generation's expenses in connection with these services and pay Sempra Generation an annual energy services fee based on the level of service provided to our 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. During the years ended December 31, 2013, 2014 and 2015 we paid Sempra Generation an aggregate of US$6.5 million, US$6.6 million and US$6.6 million, respectively, under this agreement. During the years ended December 31, 2013, 2014 and 2015 Sempra Generation paid to Termoeléctrica de Mexicali approximately US$168.3 million, US$222.5 million and US$143.1 million, respectively, under this agreement.

Natural Gas Purchase and Sale Agreement

In January 2013 we entered into a scheduling agreement with Sempra Generation, an affiliate of our 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 our customers, including the Mexican Federal Electricity Commission, and to our 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, 2014 and 2015 we paid Sempra Generation an aggregate of US$0.5 million and US$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 and Pipeline Improvements

We have entered into a firm transportation services agreement with Southern California Gas Company, or SoCalGas, an affiliate of our indirect controlling shareholder, whereby SoCalGas Company transports natural gas for our distribution business from the United States to the Mexico–U.S. border near Mexicali. We pay for these transportation services based on applicable rate provisions filed with the California Public Utilities Commission. During the years ended December 31, 2013, 2014 and 2015 we paid approximately US$1.4 million, US$1.1 million and US$1.0 million, respectively, for transportation services provided by SoCalGas Company pursuant to this agreement.

We have also entered into several agreements with SoCalGas Company for natural gas transportation services on our 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 us under these agreements in 2015 and 2014 were less than US$120,000. During the year ended December 31, 2013, we received approximately US$0.1 million for transportation services provided to SoCalGas Company pursuant to these agreements.

LNG Purchase and Sale Agreement with Sempra Natural Gas

Our subsidiary IEnova LNG 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 LNG 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 LNG less than such amount of LNG, Sempra Natural Gas made payments to IEnova LNG pursuant to this agreement to cover terminal and pipeline capacity fixed costs associated with each cargo not delivered, unless Sempra Natural Gas' failure to schedule such deliveries resulted from a *force majeure* event.

In January 2013 we terminated the prior agreement under which we 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 us for purchase each year for the express purpose of maintaining a sufficient volume of LNG in our 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 us 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.

During the years ended December 31, 2013, 2014 and 2015, IEnova LNG paid Sempra Natural Gas approximately US$224.0 million, US$335.0 million and US$190.5 million, respectively, for purchases of LNG under this agreement, and Sempra Natural Gas paid IEnova LNG approximately US$90.8 million, US$90.8 million and US$101.0 million, respectively.

In January 2013, IEnova LNG 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 we are 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

Our 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) which 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 our U.S. affiliate's agreement with the Tangguh partners increases the likelihood that our LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that we will be able to satisfy at least some portion of our natural gas customer commitments by selling natural gas that has been regasified at our LNG terminal. Our U.S. affiliate's agreement with the Tangguh partners expires in 2029, and we are 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 our marine terminal.

Service Agreements

We have contracted with various affiliates of our indirect controlling shareholder for certain services provided to us in the ordinary course of our 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. These interruptible transportation services agreements renew monthly and may be terminated by either party upon 30 days' notice. The following is a summary of these transactions:

- Sempra Servicios México provides services to our gas and power segments, including administrative and operational services, and other services related to the operations in our Mexican corporate offices. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra Servicios México approximately US$0.7 million, US$0.5 million and US$0.0 million, respectively, for these services.

- Sempra Services Company provides services to our gas and power segments, including administrative services. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra Services Company approximately US$1.7 million, US$0.9 million and US$0.1 million, respectively, for these services.

- Sempra Global provides general administrative services to our corporate segment. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra Global approximately US$0.1 million, US$0.0 million and US$0.0 million, respectively, for these services.

- Sempra U.S. Gas & Power provides software and IT services to our corporate segment. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra U.S. Gas & Power approximately US$7.1 million, US$7.1 million and US$6.7 million, respectively, for these services.

Gas Control and Monitoring Agreements

We have entered into gas dispatch and transportation services agreements with Sempra Midstream, an affiliate of our 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 us to timely respond to operational events or emergencies affecting our 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 we and Sempra Midstream cease to be under the common control of our indirect controlling shareholder. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra Midstream approximately US$0.5 million, US$0.4 million and US$0.7 million, respectively, for these services. The amounts that we pay Sempra Midstream for these services will be adjusted for inflation in future years.

Other Related Party Transactions

Our indirect controlling shareholder and its affiliates pay us fees for certain administrative services and for the use of our facilities. During each of the years ended December 31, 2013, 2014 and 2015, we received approximately US$1.7 million for these services.

Sempra International provides us with professional services pursuant to various agreements with our subsidiaries. During the years ended December 31, 2013, 2014 and 2015, we paid Sempra International approximately US$6.7 million, US$7.3 million and US$5.8 million, respectively, for these services.

BOARD OF DIRECTORS

c) Management and shareholders

Pursuant to our bylaws, we are managed by a board of directors. We are subject to certain corporate governance and management rules established in our bylaws and the Mexican Securities Market Law, as discussed below. This discussion does not purport to be complete and is qualified by reference to our bylaws and the applicable provisions of the Mexican Securities Market Law, the Geral Rules for Securities Issuers and the regulations issued by the Mexican Stock Exchange.

Board of Directors

Our board of directors currently consists of nine members and is responsible for managing our 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 our shareholders at a general shareholders' meeting. The members of our board of directors are elected by our shareholders. Our 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. Our 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 our board of directors were elected or reelected at the general ordinary shareholders' meeting held April 30, 2014.

The following table sets forth certain information regarding the current members of our board of directors as of December 31, 2015:

Name	Age	Title	First appointed
Carlos Ruiz Sacristán	66	Chairman of the Board	July 2012
Mile Cacic Enríquez	65	Director	April 2015
Mark Alan Snell	60	Director	June 2012
Joseph A. Householder	60	Director	March 2013
Arturo Infanzón Favela	44	Director	December 2012
Luis Eduardo Pawluszek	53	Director	December 2012
James H. Lambright	45	Alternate Director	March 2013
Jeffrey S. Davidow	72	Director*	March 2013
Aarón Dychter Poltolarek	63	Director*	March 2013
Andrés Conesa Labastida	46	Director*	March 2013
María Angélica Espinosa Sánchez	46	Secretary (not a Director)	April 2015
René Buentello Carbonell	47	Alternate Secretary (not a Director)	June 2012
Rodrigo Cortina Cortina	47	Alternate 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 our board of directors:

Carlos Ruiz Sacristán. Mr. Ruiz is our Chairman of the Board and Chief Executive Officer. From 2007 until his appointment as Chairman of the Board in June 2012, when he assumed responsibility for all of Sempra Energy's operations in Mexico, he served on Sempra Energy's board. He currently serves on the boards of directors of Southern Copper Corporation, Banco Ve por Más, S.A. de C.V., and Grupo Creatica, S.A. de C.V. From 1994 to 2000 Mr. Ruiz served as Mexico's Secretary of Communications and Transportation during the administration of President Ernesto Zedillo, where he oversaw the restructuring of the Mexico's communications and transportation sectors to increase investment, broaden competition and improve infrastructure. Previously, from 1974 to 1988 he

held various positions at Banco de México and 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.

Mile Cacic Enríquez. Mr. Cacic was appointed to our board of directors in April 2015 and is Chief Executive Officer of Luz del Sur, S.A.A. in Peru since 1999. Previously, Mr. Cacic held various positions at Banco de Crédito de Perú and Atlantic Security Bank. He is a member of the managing board of Peru's National Mining, Oil and Energy Society (*Sociedad Nacional de Minería, Petróleo y Energía*) since 2000, and served as its Vice Chairman from 2003 to 2005. He also served on the managing board of the National Confederation of Private Business Institutions (*Confederación Nacional de Instituciones Empresariales Privadas*) from 2003 to 2006, and the Association for the Furtherance of the National Infrastructure (*Asociación para el Fomento de la Infraestructura Nacional*) from 2001 to 2007, and on the board of directors of the American Chamber of Commerce in Peru in 2002 and the Energy Capital Fund in 2010. Mr. Cacic holds a Bachelor's Degree in Economics from Universidad del Pacífico in Peru, an M.B.A. from Katholieke Universiteit Leuven in Belgium and from Instituto de Administración in Caracas, Venezuela, and a Diploma in Information Technology from Harvard University.

Mark A. Snell. Mark A. Snell is a member of our board of directors and the president of Sempra Energy. In that position, Mr. Snell oversees the company's infrastructure and international businesses. From 2005 to 2011, Mr. Snell was Executive Vice President and Chief Financial Officer of Sempra Energy and prior to 2005 he served as Group President of Sempra Global. In that position, Mr. Snell oversaw all aspects of Sempra Global in competitive energy markets, including energy trading, electric generation, liquefied natural gas, pipelines and storage facilities, international utilities and retail energy marketing. Prior to serving as Group President, Mr. Snell was Chief Financial Officer of Sempra Global, and previously served as Vice President of Planning and Development for Sempra Energy. Before joining Sempra Energy in 2001, Mr. Snell served as Executive Vice President and Chief Financial Officer for Earth Tech, a Long Beach, California-based water management, engineering and environmental services firm. Prior to that, Mr. Snell was Executive Vice President and Chief Financial Officer at Dames and Moore, an NYSE-listed engineering and construction firm headquartered in Los Angeles. Mr. Snell also served as Chief Financial and Administrative Officer for Latham & Watkins, a law firm with more than 2,000 partners and employees worldwide. He also served as Executive Vice President and Chief Financial Officer of World Oil Corp., a privately held, integrated oil company. As a Senior Manager at the Los Angeles office of KPMG Peat Marwick, Mr. Snell supervised activities that supported acquisitions by client companies. Mr. Snell is a member and Chairman of the board of directors of San Diego State University's College of Business Administration, and a member of the board of trustees of Hubbs-SeaWorld Research Institute and Rady Children's Hospital and Health Center. He holds a Bachelor's Degree in Accounting from San Diego State University and is a Certified Public Accountant.

Joseph A. Householder. Joseph A. Householder is a member of our board of directors and Executive Vice President and Chief Financial Officer of Sempra Energy. From 2006 to 2011, Mr. Householder was Senior Vice President, Controller and Chief Accounting Officer of Sempra Energy, in which capacity he was responsible for financial reporting, accounting and controls, and tax functions for Sempra Energy and its companies. Before that, he served as Vice President of Corporate Tax and Chief Tax Counsel for Sempra Energy, where he oversaw Sempra Energy's worldwide tax affairs. Prior to joining Sempra Energy in 2001, Mr. Householder was a partner at PricewaterhouseCoopers in the firm's national tax office. From 1986 to 1999, he served in a number of legal and financial roles at Unocal, including ultimately as Vice President of Corporate Development and Assistant Chief Financial Officer, where he was responsible for worldwide tax planning, financial reporting and forecasting, and mergers and acquisitions. Mr. Householder currently serves on the board of directors of Pacific Enterprises Inc., Southern California Gas Company, EnergySouth Inc., the San Diego Regional Economic Development Corporation, and San Diego Gas & Electric Company, and is a member of the Tax Executives Institute, the American Institute of Certified Public Accountants, the California Bar Association and the American Bar Association. He holds a law degree from Loyola Law School and a Bachelor's Degree in Business Administration from the University of Southern California.

Arturo Infanzón Favela. Arturo Infanzón is a Member of our Board of Directors and our Executive Vice-President of Operations and Finance. Previously, Mr. Infanzón was Vice-President for Mexico and Director of Operations of Sempra International. He was previously the Controller of Operations in Mexico and General Manager of Ecogas, S. de R.L. de C.V. Prior to joining Sempra Energy in 1997, Mr. Infanzón worked at Price

Waterhouse 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., companies controlled by Sempra Energy. He holds a Bachelor's Degree in Accounting from the Universidad Autónoma de Baja California in Mexico and a Master's Degree in Finance from San Diego State University.

Luis Eduardo Pawluszek. Mr. Pawluszek is a member of our board of directors and Vice President of Asset Development for Sempra LNG & Midstream, where he is responsible for all development, permitting and localization activities associated with reception, storage and liquefaction terminals. Previously, he was Vice President of South American Operations for Sempra International, where he was responsible for the operations of Chilquinta Energía in Chile and Luz del Sur in Peru, and their respective subsidiaries. Prior to joining Sempra, Mr. Pawluszek served in various positions at AEI Houston, including as Chief Financial Officer. Before that, he was Chief Executive Officer at Emgasud and EDEN, the Argentinian subsidiaries of AEI Houston. Mr. Pawluszek has served on the board of directors of various leading energy companies in Peru, Chile, Colombia and Argentina. He also served as Director of Finance at Transportadora Gas del Sur, where he was responsible for financial management and investor relations. He previously served as Representative for Royal Bank of Canada in Argentina and Chile, where we was responsible for the corporate clients business. Mr. Pawluszek currently serves on the board of directors of Chilquinta Energía, S.A. and Luz del Sur, S.A.A., which are controlled by Sempra Energy, and previously served on the board of directors of Emgasud and EDEN. He holds a Bachelor's Degree in Public Accounting from Universidad Nacional de Buenos Aires and a Master's Degree in Finance and Capital Markets from Escuela Superior de Economía y Administración de Empresas.

James H. Lambright. James H. Lambright is an alternative member of our board of directors and the Senior Vice President of Corporate Development for Sempra Energy. In that position, Mr. Lambright directs Sempra Energy's investments, strategic partnerships and acquisitions. Mr. Lambright's earlier leadership roles included four years as Chairman and Chief Executive Officer of the United States Export-Import Bank, an independent government corporation based in Washington, D.C. which is responsible for financing U.S. exports to more than 150 countries. During the financial crisis of 2008 to 2009, Mr. Lambright served as Chief Investment Officer of the U.S. Treasury Department's $700 billion Troubled Asset Relief Program (TARP). He has also worked as a vice president in private equity and served on the board of directors of Sapphire Energy and the United States Export-Import Bank. Mr. Lambright graduated with honors from Harvard Law School and with distinction from Stanford University. He is a Henry Crown Fellow of the Aspen Institute and currently serves on the board of PeacePlayers International, a Washington, D.C.-based nonprofit organization.

Jeffrey Davidow. Mr. Davidow is a member of our 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 our 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, and Empresas ICA. He currently serves as an advisor to the management of the project for the development of the new Mexico City airport. 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.

Andrés Conesa Labastida. Dr. Conesa is a member of our board of directors and the Chief Executive Officer of Aeroméxico since 2005. Dr. Conesa has held several positions in the Mexican public sector, including those of Advisor to the Secretary of the Economic Cabinet of the Office of the President of Mexico from 1991 to 1993, Chief Advisor to the Undersecretary of Finance and Public Credit from 1997 to 1998, Director of International Financial Affairs at the Mexican Ministry of Finance and Public Credit from 1998 to 2000 and General Director of Economic Policy from 2000 to 2003, and Deputy Undersecretary for Public Credit from 2003 to 2004, when he was appointed Chairman of the Board of CINTRA, the holding company of Aeroméxico and Mexicana. He has been a member of the Board of Governors of the International Air Transport Association since 2008 and served as Chair of the Board from 2015 to 2016. Dr. Conesa holds a Bachelor's Degree in Economics from Instituto Tecnológico Autónomo de México and a Ph.D. in Economics from Massachusetts Institute of Technology, where he was both a Fulbright and a Ford-MacArthur Scholar. In 1997 was the recipient of the National Award for Economic Research.

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 my 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, Andrés Conesa and Jeffrey Davidow, who were ratified by an ordinary general meeting of Company shareholders on April 30, 2014. 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, Aaron Dychter, Andrés Conesa and Arturo Infanzón, whose appointments were ratified by the ordinary general meeting of shareholders on April 30, 2014. 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, Aaron Dychter and Andrés Conesa are the independent members. The Company believes that all members of its Corporate Practices Committee are independent in terms of the Securities Market Law.

The Corporate Practices Committee has powers including:

- 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 our senior officers as of December 31, 2015:

Name	Age	Title
Carlos Ruiz Sacristán	66	Chairman of the Board and Chief Executive Officer
Arturo Infanzón Favela	44	Executive Vice President of Operations and Finance
Gerardo De Santiago Tona	44	Executive Vice President of Operations and Construction
Tania Ortiz Mena López Negrete	45	Executive Vice President of Development
Carlos Barajas Sandoval	47	Vice President of Operations
René Buentello Carbonell	47	Vice President and General Counsel
Jesús Córdoba Domínguez	55	Vice President of Engineering and Construction
Manuela Molina Peralta	44	Vice President of Finance
Juan Rodríguez Castañeda	51	Vice President of Corporate Affairs and Human Capital
Roberto Rubio Macías	43	Comptroller

The following is a summary of the experience and principal business interests of our current officers:

Carlos Ruiz Sacristán. See "– Board of Directors."

Arturo Infanzón Favela. See "– Board of Directors."

Gerardo de Santiago Tona. Gerardo De Santiago has been 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, S. de R.L. de C.V. 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.

Tania Ortiz Mena López Negrete. Tania Ortiz Mena has been the Company's Executive Vice-President for Development since July 2014. She served as the Company's Vice-President for Business Development and External Affairs from 2009 to 2012, Vice-President of 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. Ms. Ortiz Mena holds a Bachelor's Degree in International Relations from the Universidad Iberoamericana in 1993 and a Master's Degree in International Relations from Boston University in 1994. Tania Ortiz Mena is currently President of the Mexican Natural Gas Association (*Asociación Mexicana de Gas Natural, A.C.)* and a board member of the Mexican chapter of the World Energy Council.

Carlos Barajas Sandoval. Carlos Barajas has been the Company's Vice-President of Operations since February 2014. Previously, 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 is our Vice President and General Counsel since 2014, and our Deputy Secretary since 2010. 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.

Jesús Córdoba Domínguez. Jesus Córdoba has been the Company's Vice-President of Engineering and Construction since 2012. From 2010 to 2012 he acted as Director of Transportation Operations. From 2001 to 2010 Mr. Córdoba was Project Manager for subsidiaries of the El Paso Corporation in Mexico and from 1998 to 2001 he was Superintendent at TransCanada Pipelines in Mexico. Mr. Córdoba is a graduate of Civil Engineering from the Universidad La Salle A.C.

Manuela Molina Peralta. Manuela ("Nelly") Molina is our Vice President of Finance since July 2010. Prior to joining our company, Ms. Molina was Vice President of Finance at El Paso Corporation in Mexico from 2001 to 2010, and General Manager of Kinder Morgan (Mexico), the first distributor of natural gas in Hermosillo, Sonora, from 1997 to 2001. Ms. Molina holds a Bachelor's Degree in Accounting from Universidad de Sonora and a Master's Degree in Finance from Instituto Tecnológico de Estudios Superiores de Monterrey. She served as President of the Mexican Institute of Finance Executives (*Instituto Mexicano de Ejecutivos de Finanzas*) in 2015 and was a founding member of NatGas Querétaro.

Juan Rodríguez Castañeda. Juan Rodríguez Castañeda is IEnova´s Vice President of Corporate Affairs and Human Capital since July 2014. 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).

Roberto Rubio Macías. Mr. Rubio is our Comptroller since 2012. From 2001 y 2012, he was Foreign Investments Accounting Manager at Sempra San Diego, Internal Auditing Manager at Luz del Sur (subsidiary of Sempra Energy at Lima, Peru), Financial Reporting Manager at IEnova in Tijuana, Comptroller of Termoeléctrica de Mexicali, Accounting Manager and Comptroller at Ecogas in Chihuahua. Prior to joining Sempra Energy in 2001, Mr. Rubio served as Administrative Manager at Denimtex, a textile manufacturer with more than 800 employees, 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. Mr. Rubio holds a Bachelor's Degree in Accounting from Universidad Autónoma de Chihuahua. He has been registered as a certified public accountant with the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*) since 2001.

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 Company shares.

Shareholding

Shareholders with more than 10% of issuer's equity: Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex; 10.90%

Shareholders with significant influence: none

Shareholders with control: Semco Holdco, S. de R.L. de C.V., 81.10%

Internal Control

We have internal control policies and procedures that are designed to provide reasonable assurance that the operations and other related aspects of its activities are recorded and accounted for in accordance with the administrative guidelines, applying the IFRS in line with the available interpretations. Furthermore the operational procedures are audited periodically and the internal control systems are reviewed annually by the external auditors as part of the process of auditing the financial statements, however, that review is not for the purpose of expressing an opinion on the effectiveness of our internal control over financial reporting.

Compensation of Our Directors and Senior Officers

The aggregate amount of compensation paid by us to the members of our senior management was US$8.9 million for the year ended December 31, 2015. We continuously review our salary, bonus and other compensation plans to offer competitive compensation arrangements for our management.

Each of our independent directors receives an annual retainer of approximately US$21,000 for service as a director. In addition, each independent director receives an annual fee of approximately US$33,900 for attending the meetings of our board of directors and our audit and corporate governance committees. Non-independent directors do not receive any compensation for their services as directors or members of our audit or corporate governance committees.

In addition, our independent directors receive additional "phantom stock" compensation, the value of which varies based on the performance of our shares. This phantom stock vests annually on the anniversary of its grant date, subject to the independent director remaining in service on such date. The terms of this phantom stock compensation are determined by a committee of our board of directors composed entirely of non-independent directors.

DESCRIPTION OF OUR CAPITAL STOCK AND BYLAWS

d) Our Bylaws and Other Agreements

Set forth below is a description of our capital stock and a brief summary of certain significant provisions of our bylaws and Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to our bylaws and the relevant provisions of Mexican law.

General

We were 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 our name to "Sempra Energy México, S. de R.L. de C.V." On December 3, 2008 we changed our name to "Sempra México, S. de R.L. de C.V." On February 15, 2013, we transformed into a variable capital stock corporation (*sociedad anónima de capital variable*), which transformation became effective on February 20, 2013. On March 1, 2013, we changed our name to "Infraestructura Energética Nova, S.A. de C.V." Through a unanimous resolution on March 6, 2013, our shareholders approved amending and restating our 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 our name to "Infraestructura Energética Nova, S.A.B. de C.V." A copy of our 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 our corporate existence is indefinite. We are a holding company and conduct all of our operations through our subsidiaries.

Capital stock

Because we are a variable capital stock corporation, our capital stock must have a fixed portion and may have a variable portion. As of the date of this report our issued and outstanding capital stock consists of 1,484,023,813 shares of a single series of common stock, no par value, of which 5,000 are Class I shares representing our fixed capital and 1,484,018,813 are Class II shares representing our variable capital. In addition, we have 330,000,000 Class II shares held in treasury, which will be available for sale in connection with a projected public offering. Our 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 our Capital Stock in the Past Three Years

During the three-year period from 2013 to 2015, our members and shareholders approved the following two increases in our capital: (i) On February 15, 2013, our members approved our transformation into a variable stock company and a Ps.1.00 increase in our capital, which increase was paid for by Sempra Energy Holdings XI, B.V., and (ii) on March 6, 2013, our shareholders approved by unanimous consent a Ps. 2.3 billion increase in our capital through the issuance of 233,978,328 new shares. We sold 218,110,501 shares in connection with our initial public offering, for an initial offering price of Ps.34.00 per share or an aggregate of Ps.7.4 billion.

In addition, on September 2015 our shareholders approved a Ps.3.3 billion increase in our capital stock through the issuance of 330 million new Class II shares for sale in connection with a proposed public offering.

Voting Rights and Shareholders' Meetings

All of our shares have full voting rights. Each share entitles the holder to one vote at any meeting of our shareholders.

Pursuant to our bylaws, we 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. We must hold an ordinary shareholders' meeting at least once each year, within the first four months following the end of our fiscal year, to discuss, among other things, the approval of our financial statements, the report prepared by our board of directors on our financial statements, the appointment of members of our board of directors and the determination of the compensations of the members of our board of directors.

Extraordinary shareholders' meetings are those which are called to discuss, among others, the following matters:

- an extension of the duration of our corporate existence;
- our dissolution;
- an increase or decrease in our capital stock;
- a change in our corporate purpose or nationality;
- any transformation, merger or spin-off involving us;
- any stock redemption or issuance of preferred stock;
- any redemption of our shares using retained earnings;
- the issuance of bonds, debentures, obligations, debt or equity instruments, or other similar instruments;
- the cancellation of the registration of our shares with the Mexican National Securities Registry or the delisting of our shares from any stock exchange;
- amendments to our bylaws; and
- any other matter for which Mexican law or our bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held in the same city as our corporate offices, which are in Tijuana, Baja California. Shareholders' meetings may be called by the chairman of our board of directors, the chairman of our audit committee, the chairman of our corporate governance committee, our secretary or a Mexican court of competent jurisdiction. In addition, any holder of at least 10% of our outstanding capital stock has the right to request that our board of directors, our audit committee or our corporate governance committee call a shareholders' meeting to discuss the matters indicated in the relevant request.

Notices of shareholders' meetings must be published in one of the newspapers of general circulation in Tijuana, Baja California, 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. We 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 we 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 our 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 our 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 our outstanding voting shares. At extraordinary shareholders' meetings called by a second or subsequent notice, meetings are legally convened when over 50% of our 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 our outstanding voting shares

Approval from the holders of shares representing 95% of our capital stock, whether voting or non-voting, is required to request to the Mexican Banking and Securities Commission that the registration of our 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 our financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of our net profits for the preceding fiscal year. By statute, prior to any distribution of dividends, we are required to allocate 5% of our net profits to a legal reserve fund until the legal reserve fund equals 20% of our 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 we declare dividends, we 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 us the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

Changes to Our Capital Stock

The fixed portion of our capital stock may be increased or decreased by a resolution adopted by our shareholders in an extraordinary shareholders' meeting, provided that our bylaws are concurrently amended to reflect the increase or decrease in capital stock. The variable portion of our capital stock may be increased or decreased by our shareholders in an ordinary shareholders' meeting without the amendment of our bylaws.

Increases or decreases in the fixed or variable portion of our capital stock must be recorded in our registry of capital variations, which we are required to maintain under the Mexican Corporations Law. The minutes of any shareholders' meeting where our 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

We may choose to acquire our 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 our stockholders' equity without adopting a reduction in capital stock, or against our 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 our shareholders at their annual ordinary meeting;
- we may not be delinquent on payments due on any outstanding debt issued by us 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
- we must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which we own 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

Our subsidiaries may not, directly or indirectly, invest in our 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 our bylaws, shares representing our 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 our 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 our dissolution, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up our 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

Our 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. Our 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 our stock registry and holders of certificates issued by Indeval or by Indeval participants will be recognized as our 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 our bylaws, our shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if we issue additional shares of capital stock, our 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 our 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 us in connection with mergers, (2) shares issued in connection with the conversion of convertible securities, the issuance of which was approved by our shareholders, (3) shares issued in connection with the capitalization of items included in our statement of financial position, (4) the resale by us of shares held in our treasury as a result of repurchases of shares conducted by us 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, our bylaws include a number of minority shareholder protections. These minority protections include provisions that allow holders of at least 10% of our outstanding shares entitled to vote (including voting in a limited or restricted manner):

- to request that a shareholders' meeting be called;
- to request that resolutions, with respect to any matter on which they were not sufficiently informed, be postponed; and
- to appoint or revoke the appointment of one member of our board of directors and one alternate member of our board of directors.

The minority protections include provisions that also allow holders of at least 20% of our 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 our 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 we 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 our outstanding shares to initiate an action for civil liabilities against some or all of our directors in a shareholder derivative suit for our 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

We have included anti-takeover protections in our bylaws. Generally, these provisions require board approval for acquisitions of our 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 our shares of stock, regardless of class or series, as well as any certificate, security or instrument whose underlying assets are our shares and which confers a right to or is convertible into our 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 our 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 our 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, our bylaws provide that any person who, individually or together with other related persons, wishes to acquire our shares or the beneficial ownership of our 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 our outstanding capital stock, must (1) obtain the prior written approval of our 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 our control, fulfill additional requirements as set forth below.

We will not recognize the ownership of shares acquired without approval or in violation of our anti-takeover provisions, nor will we record such shares in our stock registry, even if the acquirer holds other shares of

our common stock. Furthermore, a person that is deemed to have acquired our shares in violation of our 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 our 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 our board before undertaking any of the transactions described above. To obtain such approval, the potential acquirer must submit to our board a written authorization request that contains certain details about the transaction, the acquirer and the source of the funds. If our board of directors does not approve the request in the manner and within the time periods provided in our bylaws, the authorization request will be deemed to be denied.

Mandatory Tender Offers in Connection with Certain Acquisitions

If our board of directors authorizes an acquisition of our 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 our outstanding shares that it is expected to acquire, or (2) 10% of our outstanding shares, provided that such acquisition would not result in a 40% interest or a change of control. In the event that our 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 our outstanding shares at a price which cannot be lower than any of the following: (i) the book value of our shares as reported on the last quarterly income statement approved by our board of directors; (ii) the highest closing price of our 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 our bylaws generally are more stringent than similar provisions contained in the Mexican Securities Market Law. We believe the provisions of our 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 our bylaws, including, among others, direct or indirect acquisitions or transfers through inheritance, acquisitions or transfers by a person or persons controlling us, such as our 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, our subsidiaries, our affiliates or any trust created by us or any of our subsidiaries, or acquisitions or transfers authorized by our board of directors or at a meeting of our shareholders.

Registration of Changes in Our Anti-Takeover Provisions

Any amendment to our anti-takeover protections must be registered with the Public Registry of Commerce.

Cancellation of the Registration of Our Shares With the Mexican Securities Registry

In the event of cancellation of the registration of our shares with the Mexican Securities Registry, whether at our request or by resolution of the Mexican Banking and Securities Commission, our controlling shareholders will be required to conduct a tender offer to purchase all the outstanding shares of our capital stock that are owned by our other shareholders. Under Mexican law and our bylaws, our controlling shareholders are those who own a majority of our outstanding shares or have the power or ability to determine the outcome of actions requiring approval by our shareholders during a shareholders' meeting, appoint or remove a majority of the members of our board of directors, managers or other similar individuals, or determine, directly or indirectly, the course of our management, strategies or principal policies.

Under Mexican law and our bylaws, if after the tender offer is completed there are still outstanding shares held by the general public, our 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 our shares on the Mexican Stock Exchange during the 30-day period preceding the offer or (ii) the book value of our 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 our 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 our outstanding shares during a general extraordinary shareholders' meeting.

Additional Matters

Variable Capital

We are 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 our bylaws, although it does require a majority vote of our shareholders. A holder of variable capital shares that wishes to effect a total or partial withdrawal of such shares is required to give us 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, our bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to our property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between us 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 our 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 our shareholders approve a change in our 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 our 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

Our 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

IEnova’s values guide our interaction with government bodies and regulators, customers, the community, companies and our co-workers. Therefore, all Company employees are encouraged to understand and adhere to the standards contained in the Code of Ethics.

Our Code of Ethics is a clear, useful and practical guide for ethical and legal compliance in our workplace. It is a decision-making tool that describes our policies and procedures in detail.

Ethics and Compliance Help Line 01 800 062 2107

The Ethics and Compliance Help Line is available 24 hours a day, seven days a week, to report inappropriate conduct that breaches our code of Ethics and affects our employees and the Company. The help line is anonymous, confidential and independent of the company’s management.

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. Foreign Corrupt Practices Law (FCPA)

Sustainability

Our sustainability strategy, which encompasses the areas of financial, social and environmental sustainability, is aimed at creating value for ourselves, our shareholders, customers and employees, and the communities to which we belong.

We have characterized ourselves for our commitment to operating in strict compliance with the law and the regulations for our industry, which has allowed us to earn and retain the confidence of our various groups of constituents.

Our achievements in this area include the publication of our Third Sustainability Report and our inclusion in the Mexican Stock Exchange's Sustainability Index in February 2016, for the second year in a row. In addition, we attained *Great Place to Work* certification for a second, consecutive year and were recognized as a *Socially Aware Company* by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía*). In 2015 we

created Fundación IEnova A.C., which provides support to organizations and programs that contribute to the well-being of the members of the communities to which we belong and to the protection of the environment.

These actions are a reflection of our commitment with the ongoing improvement and implementation of high operating, environmental, labor, corporate governance and social awareness standards.

On May 30, 2016, we expect to release our 2015 Sustainability Report, which will contain additional information on our sustainability efforts. www.ienova.com.mx

TRADING MARKET

a) Share Ownership Structure

Not applicable.

PERFORMANCE OF OUR SHARES ON THE MEXICAN STOCK EXCHANGE

b) Performance of Our Shares on the Mexican Stock Exchange

Our 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 our shares.

On March 31, 2016, the closing price for our shares on the Mexican Stock Exchange was Ps.70.63 per share. The following tables set forth the reported, high and low sales prices for our 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, our 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 (Ps. per Share)	Average Trading Volume
2013	Ps. 56.02	Ps. 38.66	Ps. 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

Source: IEnova, based on Bloomberg data.

Quarterly highs and lows:

Year	Quarter	High	Low	Last (Ps. per Share)	Average Trading Volume
2013	First	Ps. 39.62	Ps. 34.00	Ps. 39.34	19,098,449
	Second	51.08	39.02	46.67	1,295,487
	Third	55.37	47.90	50.53	2,078,472
	Fourth	56.02	47.40	52.17	1,197,030
2014	First	Ps. 69.60	Ps. 51.50	Ps. 67.56	1,255,064
	Second	74.02	64.51	71.98	1,087,503
	Third	84.63	72.05	81.96	895,638
	Fourth	85.90	69.01	73.80	1,090,119
2015	First	Ps. 84.34	Ps. 69.84	Ps. 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	Ps. 75.43	Ps. 69.92	Ps. 70.63	1,066,654

Source: IEnova, based on Bloomberg data.

Monthly highs and lows:

Year	Month	High	Low	Last (Ps. per Share)	Average Trading Volume
2015	October	Ps. 81.21	Ps. 69.99	Ps. 79.65	1,775,218
	November	78.41	72.34	72.71	1,072,100
	December	73.07	69.84	72.34	415,717
2016	January	Ps. 72.98	Ps. 69.92	Ps. 70.99	824,591
	February	75.43	70.61	71.07	935,449
	March	73.27	70.05	70.63	1,439,923
	April	69.90	67.22	67.23	2,019,743

Source: IEnova, based on Bloomberg data.

As of December 31, 2015, we had 3,697 shareholders of record. This number does not include those shareholders who hold their shares through either an intermediary or a trust. Our actual number of shareholders is greater than our number of shareholders of records as it includes beneficial owners whose shares are held through intermediaries.

c) Market Maker

On June 7, 2013, we announced that we 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, we 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 our shares of stock on a firm basis and for its own account, in order to foster the increased liquidity of our shares, establish price benchmarks and contribute to the continuing, stable performance of our 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 our market maker, the operation spread for our shares has decreased to less than 0.5%, with an average daily trading volume of 1,186,339 shares.

UNDERLYING ASSETS

Not applicable.

MANAGEMENT CERTIFICATION

April 29, 2016

We, Carlos Ruiz Sacristan, Arturo Infanzon Favela and René Buentello Carbonell, in our capacities of Chief Executive Officer, Executive Vice President of Operations and Finance (COO and CFO) and 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 2015, 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

____

Arturo Infanzón Favela.
Executive Vice President of Operations and Finance
(COO and CFO)

____

Rene Buentello Carbonell
Vice President General Counsel
(Legal Director)

EXHIBIT

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 and Independent Auditor´s Report Dated February 22, 2016

Deloitte.

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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 Subsidiaries

We have audited the accompanying consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (formerly Sempra México, S. A. de C. V. and Subsidiaries) (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2015, 2014 and 2013, and the consolidated statements of profit, and other comprehensive income, changes in stockholders' 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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 Company'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 Company'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.

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Deloitte.

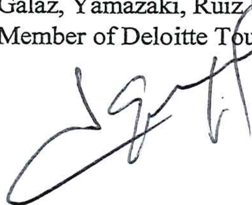
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (formerly Sempra México, S. A. de C. V. and Subsidiaries) as of December 31, 2015, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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
February 22, 2016

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	Notes	December 31, 2015	December 31, 2014	December 31, 2013
Current assets:				
Cash and cash equivalents	4, 22	$ 40,377	$ 83,637	$ 103,880
Short-term investments	22	20,068	30,020	207,027
Trade and other receivables, net	5, 22	53,728	66,401	64,035
Due from unconsolidated affiliates	6, 22	27,608	26,601	24,860
Income taxes receivable	23	16,226	34,297	15,931
Natural gas inventories	8	4,628	9,375	3,836
Derivative financial instruments	22	1,926	4,709	9,188
Value added tax receivable		46,807	30,797	43,914
Carbon allowances	18	5,385	29,864	4,778
Other assets	10	8,576	9,918	20,679
Total current assets		225,329	325,619	498,128
Non-current assets:				
Due from unconsolidated affiliates	6, 22	111,766	146,775	331
Finance lease receivables	9, 22	14,510	14,621	14,700
Deferred income tax asset	23	78,965	85,758	106,227
Investments in joint ventures	11	440,105	401,538	366,288
Goodwill	12	25,654	25,654	25,654
Property, plant and equipment, net	13, 26	2,595,840	2,377,739	2,213,837
Carbon allowances	18	12,975	229	11,584
Other assets	10	1,938	2,285	5,159
Total non-current assets		3,281,753	3,054,599	2,743,780
Total assets		$ 3,507,082	$ 3,380,218	$ 3,241,908

See accompanying notes to the consolidated financial statements.

Liabilities and Equity	Notes	December 31, 2015	December 31, 2014	December 31, 2013
Current liabilities:				
Short-term debt	19, 22	$ 88,507	$ 195,089	$ -
Trade and other payables	14, 22	43,849	59,575	49,459
Due to unconsolidated affiliates	6, 22	352,650	14,405	3,655
Income tax liabilities	23	14,095	18,022	90,130
Derivative financial instruments	22	-	6,808	10,705
Other financial liabilities	16, 22	6,444	7,223	12,853
Provisions	20	1,293	1,619	1,945
Other taxes payable		13,881	11,247	7,815
Carbon allowances	18	5,385	29,864	4,778
Other liabilities	17	17,237	23,698	11,749
Total current liabilities		543,341	367,550	193,089
Non-current liabilities:				
Long-term debt	21, 22	299,925	350,638	394,656
Due to unconsolidated affiliates	6, 22	38,460	38,460	38,893
Deferred income tax liabilities	23	261,294	232,538	205,385
Carbon allowances	18	12,611	-	11,151
Provisions	20	34,236	38,250	26,430
Derivative financial instruments	22	133,056	100,449	53,208
Employee benefits	15	4,295	3,045	2,684
Total non-current liabilities		783,877	763,380	732,407
Total liabilities		1,327,218	1,130,930	925,496
Stockholders' equity:				
Common stock	24	762,949	762,949	762,949
Additional paid-in capital	24	973,953	973,953	973,953
Accumulated other comprehensive income		(103,944)	(64,331)	(24,273)
Retained earnings		546,906	576,717	603,783
Total equity attributable to owners of the Company		2,179,864	2,249,288	2,316,412
Total Stockholder's equity and liabilities		$ 3,507,082	$ 3,380,218	$ 3,241,908

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Profit

(In thousands of U. S. Dollars, except per share amounts)

	Notes	Year ended December 31, 2015	2014	2013
Revenues	22, 26	$ 671,703	$ 822,796	$ 677,836
Cost of revenues		(286,597)	(443,298)	(328,817)
Operating, administrative and other expenses	28	(104,213)	(98,384)	(99,685)
Depreciation and amortization	13, 26, 31	(67,682)	(61,943)	(61,164)
Interest income	26, 27	6,743	3,299	1,372
Finance (costs) income	26, 30	(10,103)	1,143	(5,035)
Other (losses) and gains	29	(11,575)	1,258	6,986
Profit before income tax and share of profits of joint ventures		198,276	224,871	191,493
Income tax expense	23, 26	(100,406)	(111,283)	(83,792)
Share of profits of joint ventures, net of income tax	11, 26	42,319	23,346	34,689
		(58,087)	(87,937)	(49,103)
Profit for the year	26, 32	$ 140,189	$ 136,934	$ 142,390
Earnings per share:				
Basic and diluted earnings per share:	32	$ 0.12	$ 0.12	$ 0.13

See accompanying notes to the consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

	Notes	Years ended December 31, 2015	2014	2013
Profit for the year	32	$ 140,189	$ 136,934	$ 142,390
Other comprehensive income (loss):				
Items that will not be reclassified to profit or (loss):				
Actuarial (losses) gains on defined benefits plans	15	(1,793)	357	179
Deferred income tax relating to components of other comprehensive income		538	(107)	(54)
Total items that will not be reclassified to profit and loss		(1,255)	250	125
Items that may be subsequently reclassified to profit or (loss):				
Loss on valuation of derivative financial instruments held for hedging purposes		(6,604)	(1,822)	(18,381)
Deferred income tax on loss on valuation of derivative financial instruments held for hedging purposes		1,981	547	5,514
Loss on valuation of derivative financial instruments held for hedging purposes of joint ventures		(5,362)	(19,936)	-
Deferred income tax on loss valuation of derivative financial instruments held for hedging purposes at joint ventures		1,608	5,981	-
Exchange differences on translating foreign operations		(29,981)	(25,078)	(1,927)
Total items that may be reclassified subsequently to profit and loss		(38,358)	(40,308)	(14,794)
Other comprehensive loss for the year		(39,613)	(40,058)	(14,669)
Total comprehensive income for the year		$ 100,576	$ 96,876	$ 127,721

See accompanying notes to the consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. 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) income	Retained earnings	Total
Balance as of December 31, 2013		$ 762,949	$ 973,953	$ (24,273)	$ 603,783	$ 2,316,412
Profit for the year		-	-	-	136,934	136,934
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(15,230)	-	(15,230)
Actuarial gains on defined benefits plans, net of income tax		-	-	250	-	250
Exchange differences on translating foreign operations		-	-	(25,078)	-	(25,078)
Total comprehensive income for the year		-	-	(40,058)	136,934	96,876
Payment of dividends	25	-	-	-	(164,000)	(164,000)
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
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(8,377)	-	(8,377)
Actuarial losses on defined benefits plans, net of income tax		-	-	(1,255)	-	(1,255)
Exchange differences on translating foreign operations		-	-	(29,981)	-	(29,981)
Total comprehensive income for the year		-	-	(39,613)	140,189	100,576
Payment of dividends	25	-	-	-	(170,000)	(170,000)
Balance as of December 31, 2015		$ 762,949	$ 973,953	$ (103,944)	$ 546,906	$ 2,179,864

See accompanying notes to the consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)

	Notes	Years ended December 31, 2015	2014	2013
Cash flows from operating activities:				
Profit for the year	26, 32	$ 140,189	$ 136,934	$ 142,390
Adjustments for:				
Income tax expense	23, 26	100,406	111,283	83,792
Equity earnings of joint ventures, net of income tax	11	(42,319)	(23,346)	(34,689)
Finance costs (income)	26, 30	10,103	(1,143)	5,035
Interest income	26, 27	(6,743)	(3,299)	(1,372)
Loss on disposal of property, plant and equipment		3,601	624	5,391
Impairment loss (gain) recognized on trade receivables		30	(8)	9
Gain on sale of equity interest in subsidiary	29	-	(18,824)	-
Depreciation and amortization	13, 31	67,682	61,943	61,164
Net foreign exchange (gain) loss		(8,548)	9,057	2,303
Loss (gain) on valuation of derivative financial instruments		690	4,045	(19,000)
		265,091	277,266	245,023
Movements in working capital:				
Decrease (increase) in trade and other receivables		11,776	(4,020)	19,066
Decrease (increase) in inventories		4,747	(5,539)	5,437
Decrease (increase) in other assets		3,615	14,308	(54,057)
(Decrease) increase in trade and other payables		(17,081)	49,393	18,241
Decrease in provisions		(3,791)	(19,873)	(28,512)
(Decrease) increase in other liabilities		(33,638)	17,895	32,219
Cash generated from operations		230,719	329,430	237,417
Income taxes paid		(62,540)	(166,213)	(74,657)
Net cash provided by operating activities		168,179	163,217	162,760
Cash flows from investing activities:				
Proceeds from sale of equity interest, net of cash sold		-	24,411	-
Interest received		1,047	4	-
Acquisitions for property, plant and equipment	13	(300,090)	(325,484)	(369,672)
Loans to unconsolidated affiliates		(1,301)	(162,823)	(100)
Receipts of loans to unconsolidated affiliates		41,596	18,921	-
Short-term investments		9,952	177,007	(207,027)
Net cash used in investing activities		(248,796)	(267,964)	(576,799)

(Continued)

	Notes	Years ended December 31, 2015	2014	2013
Cash flows from financing activities:				
Interest paid		(20,172)	(18,872)	(11,557)
Loans from unconsolidated affiliates		339,600	146	12,383
Loans payments from unconsolidated affiliates		-	(583)	(388,042)
Issuance of shares from initial public offering		-	-	598,812
Share issuance costs		-	-	(24,627)
Loans payment on bank lines of credit		(600,094)		
Proceeds from bank loans and bank financing		495,094	278,432	-
Proceeds from debt issuance		-	-	408,278
Debt issuance costs		(2,536)	(11,184)	(3,003)
Dividends paid	25	(170,000)	(164,000)	(156,000)
Net cash provided by financing activities		41,892	83,939	436,244
Net (decrease) increase in cash and cash equivalents		(38,725)	(20,808)	22,205
Cash and cash equivalents at the beginning of the year		83,637	103,880	85,073
Effects of exchange rate changes on the balance of cash held in foreign currencies		(4,535)	565	(3,398)
Cash and cash equivalents at the end of the year	4	$ 40,377	$ 83,637	$ 103,880

See accompanying notes to the consolidated financial statements.

1. General information, relevant events and activities

1.1. General information

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (formerly Sempra México, S. A. de C. V. and Subsidiaries) (collectively, the "Company" or "IEnova") are located and incorporated in México. Their parent and ultimate holding company is Sempra Energy ("Parent") located and incorporated in the United States of America ("U. S."). The address of their registered offices and principal places of business are disclosed in Note 38.

1.2. Significant events

1.2.1. Change of legal name –

Pursuant to a resolution of the general ordinary members' meeting on February 15, 2013, the Company's change in legal form from "Sociedad de Responsabilidad Limitada de Capital Variable" ("S. de R. L. de C. V.", limited liability company) to "Sociedad Anónima de Capital Variable" ("S. A. de C. V.", corporation) was approved. Subsequently, through a resolution approved at the Extraordinary General Shareholders' meeting held on March 1, 2013, the legal name was changed from Sempra México, S. A. de C. V. to "Infraestructura Energética Nova, S. A. de C. V."

Additionally, as described in Note 1.2.3., through unanimous resolutions adopted in extraordinary shareholders' meeting, on March 6, 2013, the Company again changed its legal form from S. A. de C. V. to "Sociedad Anónima Bursátil de Capital Variable" ("S. A. B. de C. V.", securities corporation) in order to comply with provisions of the Mexican Securities Market Law.

1.2.2. Debt securities offering –

On February 11, 2013, the Company received approval from the Mexican Banking and Securities Commission ("CNBV", by its initials in Spanish), for its program for the issuance and public offering of debt securities ("Certificados Bursátiles", or "CEBURES", by its initials in Spanish) in México for a total amount of $12,800 million Mexican pesos ("Pesos") or its equivalent in investment units, with a term of 5 years.

On February 14, 2013, the Company entered into two public placements of CEBURES in accordance with the program mentioned above. The first placement was for $102.0 million ($1.3 billion Pesos) and the second placement was for $306.0 million ($3.9 billion Pesos). See Note 21 for more detail.

The net proceeds from the issuances of CEBURES were used for repayment of its balances due to unconsolidated affiliates and for general corporate purposes, including capital expenditures (development of new pipeline projects) and working capital.

1.2.3. Initial public offering of shares –

On March 21, 2013, the Company carried out an initial public offering of shares ("IPO") in México and a private offering of shares in international markets (collectively the "Global Offering"). Through the Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was $520,707.0 ($6,448.4 million Pesos). On March 27, 2013, the underwriters in México and abroad, exercised the over-allotment option. The amount of over-allotment was $78,106.0 ($967 million Pesos), related to 28,449,196 shares at the placement price of $34.00 Pesos per share (Please refer to Note 24).

As a result of the Global Offering, the Company raised $574,185.0 ($7,118.4 million Pesos), net of issuance costs for $24,267.0 ($297.3 million Pesos). Subsequent to the Company's Global Offering, subscribed and paid common stock of Infraestructura Energética Nova, S. A. B. de C. V. is represented by a total of 1,154,023,812 shares (Please refer to Note 24).

The net proceeds from the IPO are invested in short-term investments and are being used for general corporate purposes and for the financing of the Company's current investment and expansion plans.

1.2.4. Projects under development –

a. *Los Ramones Project*

i. Los Ramones I project

In January 2013, Petroleos Mexicanos ("PEMEX") announced that the first phase of the Los Ramones pipeline project was assigned to and would be developed by IEnova's joint venture with PEMEX (see Note 11). The project is a 114 Kilometers (Km) natural gas pipeline (Los Ramones I) with two compression stations, from the northern portion of the state of Tamaulipas bordering the United States to Los Ramones in the Mexican state of Nuevo León. The capacity is fully contracted under a 25-year transportation services agreement with PEMEX denominated in Mexican pesos, with a contract rate based on the U.S. dollar investment, adjusted annually for inflation and fluctuation of the exchange rate. The pipeline portion of the project began operations at the end of 2014. The compressor stations started operation at the end of 2015. The pipeline capacity is 2.1 billion of cubic feet per day ("CFPD").

ii. Los Ramones Norte project

On March 12, 2014, Gasoductos de Chihuahua, S. de R. L. de C. V. ("GdC"), the Company's joint venture with PEMEX Gas y Petroquímica Básica ("PGPB") entered into a partnership agreement with TAG Pipelines, S. de R. L. de C. V. (an affiliate of Mex Gas International, PGPB's subsidiary), establishing the terms and conditions to jointly operate TAG Norte, S. de R. L. de C. V. ("TAG Norte").

TAG Norte will develop the Los Ramones Norte project, which consists of a 440 Km pipeline system and two compression stations between the municipality of Los Ramones, Nuevo León and San Luis Potosí, with an investment of approximately $1.3 to $1.5 billion.

TAG Norte concurrently entered into an integrated transportation service of natural gas agreement with PGPB for all the capacity of the Los Ramones Norte system, with a 25-year term from the date of commercial operation, estimated for the first half of 2016. The pipeline capacity is 1.4 billion of CFPD.

b. *Energía Sierra Juarez project*

i. *Sale of 50% of the project ESJ*

On April 18, 2014, the Company, through its subsidiary Controladora Sierra Juárez, S. de R. L. de C. V. ("CSJ"), entered into a purchase and sale agreement with InterGen International N. V. ("InterGen") with respect to the 50% of the membership interests of Energía Sierra Juárez, S. de R. L. de C. V.'s ("ESJ") equity (Company responsible for the ESJ project). This transaction was completed on July 16, 2014. The Company recognizes ESJ as an investment in joint venture and accounts for its ownership share by the equity method of accounting. See Note 11.2 for more details of this transaction.

ii. *Project Financing Agreement for the ESJ project*

On June 12, 2014, ESJ entered into a project financing agreement for $239.8 million with a term of 18 years after the date of commencement of commercial operation in June 2015. The financing includes the granting of certain guarantees in favor of lenders and providers of coverage. See Note 11.2a for more details of the project financing.

iii. *Financing of project's value added tax.*

On June 12, 2014, ESJ entered into a current account simple loan contract with Banco Santander (México), S. A. ("Santander") for an amount of up to $455.0 million Pesos (approximately $35.0 million U.S. Dollars historical) to financing the value added tax ("IVA", for its acronym in Spanish) of the ESJ project. See Note 11.2c for more details.

c. *Sonora pipeline*

In October 2012, Gasoductos de Aguaprieta, S. de R. L. de C. V. ("GAP") was awarded two contracts by the Comisión Federal de Electricidad ("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), is for an approximate length of 505 Km, 36-inch diameter pipeline with 770 million cubic feet per day ("Mmcfd") of transportation capacity; and the second one (Guaymas – El Oro), is for an approximate length of 330 Km, 30-inch pipeline with 510 Mmcfd of transportation capacity.

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 Company estimates the total cost of the Sonora pipeline will be approximately $1.0 billion. The capacity of the Sonora pipeline is contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

d. *Ojinaga - El Encino project*

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% of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion CFPD. GAP will be responsible for the development, construction and operation of the 42-inch pipeline, with a length of approximately 205 Km and estimated cost of $300.0 million, which is expected to begin operations in the first half of 2017.

e. San Isidro to Samalayuca project

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 Mmcfd of natural gas. The system will supply natural gas to the Norte III Combined Cycle Power Plant and will interconnect with the following systems: Gasoductos de Chihuahua, Tarahumara Pipeline and the Samalayuca-Sásabe pipeline. The estimated investment is USD $108.0 million and the project is expected to start in first quarter of 2017. The contract maturity with CFE will be for 25 years.

f. Other financing

i. In June 2014, IEnova 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 is Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México. As of December 31, 2014, IEnova had $145.0 million of outstanding borrowings supported by the facility, and available unused credit on the line was $55.0 million.

ii. In August 2014, IEnova 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. As of December 31, 2014, IEnova had $51.0 million of outstanding borrowings supported by the facility, and available unused credit on the line was $49.0 million.

1.2.5. New relevant events for 2015

i. Financing with unconsolidated affiliates

a) In March 2015, IEnova entered into two related party revolving credit facilities for $90.0 million with Inversiones Sempra Latin America Limitada ("ISLA") and $30.0 million with Inversiones Sempra Limitada ("ISL"). The revolving credit facilities have the following characteristics:

- U.S. dollar-denominated
- Nine month term, with the option to be extended up to four years. At the year-end the term was renegotiated until December 2016.
- Financing to cover working capital needs and general corporate purposes.

b) On December 22 2015, IEnova entered into a related party revolving credit facility in the amount of $219.6 million with Sempra Energy Holding XI B.V. ("SEH"). The revolving credit facility has the following characteristics:

- U.S. dollar-denominated.
- Twelve-month term.
- Financing to cover working capital needs and general corporate purposes.

ii. Credit agreements

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to $400.0 million dollars with a syndicate group of four banks including, Santander, Bank of Tokyo Mitsubishi, The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation. 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 Banco Santander (México), S.A., Institución de Banca Múltiple and Sumitomo Mitsui Banking Corporation, 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 amendment agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, Sumitomo Mitsui Banking Corporation, as Administrative Agent, and the financial institutions party thereto, as Lenders, (the "Credit Agreement") whereby it agreed to increase the amount of the line of credit under the Credit Agreement to a maximum aggregate in the amount of $600.0 million dollars from the previously authorized maximum in the amount of $400.0 million dollar (refer to Note 19).

iii. Others matters

a) Incorporation of new Partners in TAG Norte Holding, S. de R. L. de C. V. (Joint Venture)

On March 26, 2015, Petróleos Mexicanos (PEMEX), through its affiliate P.M.I. Holdings, B. V. ("PMI"), announced the execution of an agreement with BlackRock and First Reserve in which BlackRock and First Reserve acquired a combined interest of 45% of TAG Norte Holding, S. de R. L. de C. V. ("TAG Norte Holding"). Gasoductos de Chihuahua, S. de R. L. de C. V. ("GdC"), an equity method investment of IEnova, holds a 50% interest in TAG Norte Holding which is currently constructing the project known as Los Ramones Norte.

b) Liquefaction project

During March 2015, the Company, together with its affiliate Sempra LNG, 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 Energía Costa Azul, S. de R. L. de C. V. ("ECA"). ECA is a subsidiary of IEnova and is an 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.

c) Beginning of commercial operation of the Energía Sierra Juarez wind generation project

In April 2015, Phase I of the Energía Sierra Juárez wind project, operated by "ESJ", began commercial operations in Tecate, Baja California, México. Phase I of the project is the Company 50% joint venture with InterGen N. V. and has a 155-megawatts ("MW") capacity.

d) Purchase agreement of remaining interest in GdC from PEMEX

On July 31, 2015, the Company announced an agreement with PEMEX to purchase PEMEX's 50-percent equity interest in GdC in the amount of $1.325 billion. 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 will maintain their existing partnership in the Los Ramones II Norte pipeline project through the project holding company, Ductos Energéticos del Norte, S. de R. L. de C. V. ("DEN"). The partnership will provide a platform for PEMEX and IEnova to continue developing new projects in the future. The Company will execute a bridge loan to fund the closing and IEnova expects to repay the full amount of this loan through issuances of equity or debt as quickly as practicable.

On September 14, 2015 the Ordinary and Extraordinary Shareholders' Meeting approved the purchase of PEMEX's 50-percent equity interest hold in GdC.

Resolution from COFECE in connection with Purchase agreement of remaining interest in GdC from PEMEX

In December 2015, Mexico's Comisión Federal de Competencia Económica (COFECE) objected to the transaction to purchase Pemex's interest in Gasoductos de Chihuahua as proposed. The parties are in the process of restructuring the transaction so that Pemex can proceed in accordance with the COFECE ruling.

e) 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 London Interbank Offered Rate "LIBOR") and paid a fixed interest rate of 5.0%. 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 cancelled.

f) Fundación IEnova, A. C.

During 2015, Fundación IEnova, A. C. (Fundación IEnova) was established as a non-profit organization. Fundación IEnova started operations in December 2015. At the year-end Fundación IEnova does not have material operations.

1.2.6. Tax and Energy Reforms

a. *Tax reform*. On September 8, 2013, the México's president announced the tax reform initiative. On December 11, 2013, legislation was published in the Official Gazette whereby several tax regulations were amended, supplemented, and repealed, becoming effective on January 1, 2014. Upon enactment of the legislation, the income tax and the business flat tax ("ISR" and "IETU" (Flat Tax), respectively, by their initials in Spanish) laws inforce as of December 31, 2013, were repealed and superseded by a new income tax law.

The main impacts of this reform for IEnova in its consolidated financial statements are:

- *Income tax rate*. The former income tax law indicated a reduction in the tax rate to 28% for 2014 and future years. The rate under the new income tax law is 30% for 2014 and future years.

  This change in tax rates impacts annual profits as follows:

  - For 2013, the change in rates resulted in an increase in deferred income tax expense of approximately $15.0 million.
  - Regarding 2014 to 2018, the Company estimates that the change in rates will result in an increase in income tax expense during this five year period of approximately $27.0 million.

- *Income tax consolidation regime*. The income tax consolidation regime in effect as of December 31, 2013 was replaced by a new regime in which the realized from tax consolidation are subject to recapture over three years instead of five years. In connection with the elimination of the income tax consolidation regime, there was an obligation to make an advance payment for approximately $81.0 million in 2014, this amount was included within income taxes liabilities line in the consolidated financial statements.

  In addition, within the assumption of non-consolidation, the effects of taxes recoverable and payable in subsidiaries are presented separately as of December 31, 2013, in the consolidated statements of financial position, considering that the Company no longer maintains the right to offset such amounts to the tax authorities for not consolidating for tax purposes.

- *Income tax on dividends*. Also, a new income tax on dividends was created equivalent to 10% on dividends received by foreign residents.

b. *Energy reform*. On December 20, 2013, México'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 official Federal Official Gazette. At the end of 2015, the Mexican Energy Regulatory Commission had issued particular regulation (General Administrative Procedures) for the natural gas industry, including that regarding storage and transportation open access rules.

The Company's plans for participation in the segments that have been newly opened to private investment in the energy sector will depend on the evaluation of the potential of each project to add value and growth to the portfolio, mainly through obtaining synergies, and adherence to the Company's project selection policy.

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. (Note 26).

The Gas segment develops, owns and operates, or holds interests in, natural gas and propane pipelines Liquefied Petroleum Gas ("LPG") storage facilities, transportation and distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Nuevo Leon and Jalisco, México. It also owns and operates a liquefied natural gas ("LNG") terminal in Baja California, México for importing, storing and regasifying LNG.

The Power segment owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, and a renewable energy project in a joint venture, in Baja California, México, using wind resources to serve clients in the U. S.

1.3.1. Gas segment.

The Company's subsidiaries included in this reportable segment are:

a. Ecogas México, 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), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtémoc and Anáhuac) and La Laguna-Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

   During 1996, 1997 and 1999, the Mexican Energy Regulatory Commission (Comisión Reguladora de Energía, or "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 2010, the CRE authorized an adjustment to authorized tariffs to be applied in the five-year plan for the local distribution zones of Chihuahua, Chihuahua and La Laguna-Durango. The five-year plans do not include commitments regarding the minimum number of customers. As of December 31, 2015, 2014 and 2013, ECO had over 113,000, 106,000 and 99,000 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, personnel and operational services to other subsidiaries of the group.

d. Gasoducto Rosarito, S. de R. L. de C. V. ("GRO") transportation of natural gas, serving the energy requirements of Baja California, México. GRO operates the Gasoducto system comprised of three natural gas pipelines (*Rosarito Mainline, LNG Spur and Yuma Lateral)* and a 30,000 horse power ("HP") compressor station located in Baja California, México. 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 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 with the North Baja Pipeline and travels through Mexicali and Tecate, 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 United States of America to several power plants and industrial customers in the Baja California, México market. This system is a 30-inch diameter pipeline with a length of approximately 225 Km and a designed transportation capacity of 534 Mmcfd.

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 MMcfd.

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 MMcfd.

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 design transportation capacity of 940 MMcfd as permitted by the CRE. TGN interconnects with the GRO pipeline system in the Tijuana, Baja California, México, area and extends north to interconnect with the San Diego Gas & Electric Company ("SDG&E", an unconsolidated affiliates in the U. S.) system at the Otay Mesa International border and southwest to the CFE's 600 MW Presidente Juárez Power Plant in Rosarito, Baja California, México. The TGN pipeline system was placed in service in June 2000. A 19 Km expansion to the TGN system began operations in May 2008.

f. IEnova Gasoductos México, S. de R. L. de C. V. ("IEnova Gasoductos México") (formerly Sempra Gasoductos México, S. de R. L. de C. V.) 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 and propane gas 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. IEnova Gasoductos México was acquired by Sempra Energy on April 30, 2010.

Sempra Compresión México, 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 México, S de R. L. de C. V. 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 PGPB 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 of SCM and PGPB.

In 2014, SCM was merged into IEnova Gasoductos México subsisting this last company.

g. GAP (formerly El Paso Gas Transmission de México, S. de R. L. de C. V.), owned subsidiary of IEnova Gasoductos México, 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 El Paso Energy Marketing de México, S. de R. L. de C. V. ("EPEMM"), a related party until April 2010. The pipeline starts at the border of Arizona, United States, 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, México.

Currently, GAP is also in charge of the constructions and operation of the Sonora Pipeline (see Note 1.2.4 subsection c).

h. IEnova Gasoductos Holding, S. de R. L. de C. V. ("IGH") ("IEnova Gasoductos Holding") (formerly Sempra Gasoductos Holding, S. de R. L. de C. V.) is engaged in the acquisition and subscription of any participation in the share capital of various companies.

On April 30, 2010, IGH acquired a 50% equity interest in GdC, a jointly controlled Company with PGPB.

i. IEnova, S. de R. L. de C. V. (formerly Sempra Management, S. de R. L. de C. V.) is engaged in providing administrative and operating services to others subsidiaries in the group.

During 2015, this company has been liquidated.

j. Energía Costa Azul, S. de R. L. de C. V. and Subsidiary (collectively "ECA"), own and operate an LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, México.

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 México and the U. S.

ECA entered into a 20-year firm storage service agreement with Sempra LNG International, LLC ("SLNGI", a related party in the U.S.) through IEnova LNG, S. de R. L. de C. V., (formerly Sempra LNG Marketing México, S. de R. L. de C. V.) ("IEnova LNG", or "LNG Marketing") for which SLNGI is committed to lease 50% 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 LNG provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova LNG began operating jointly with ECA. Up to that date, the activities of IEnova LNG were primarily focused on obtaining necessary permits.

On November 2009, IEnova LNG entered into an agreement with SLNGI, whereby SLNGI agreed to deliver and sell LNG cargoes to IEnova LNG from startup date of the LNG Terminal. Accordingly, IEnova LNG entered into transportation and storage capacity service agreements to commercialize the LNG.

Thereafter, on January 1, 2013, SLNGI and IEnova LNG entered into a 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, in the other hand; IEnova LNG will take LNG in order to meet its purchase commitments.

As of September 30, 2014, the agreement between IEnova LNG and JP Morgan Ventures Energy Corp ("JPM") concluded and a new agreement for gas rendered. Please refer to Note 22.11.4.

1.3.2. Power segment.

The Company's subsidiaries included in this reportable segment are:

a. Termoeléctrica de Mexicali, S. de R. L. de C. V. and Subsidiaries (collectively "TDM") are engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate and export electricity for exportation through an independent power production project.

On January 1, 2013 (with an effective date of January 1, 2012), Sempra Generation ("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 México border, and SGEN provides marketing, scheduling and dispatch services for TDM.

b. In October 2013, ESJ began construction on the 155-MW first phase of the wind generation project, which is fully contracted by SDG&E and started operational in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the Energía Sierra Juárez wind project entered into an 18-year, $240.0 million loan to finance the construction project and withdraw $82.0 million under the loan agreement. The loan agreement also provides for a $31.7 million letter of credit facility. ESJ also entered into a separate Peso-denominated credit facility for up to $35.0 million U.S. dollar equivalent to fund the value added tax of the project. (See Note 11.2).

1.3.3. Corporate segment.

Holds interests in our pipeline, distribution, regasification, natural gas sale, and power generation operations in México.

a. IEnova is essentially a holding company that invests in affiliated companies in the electricity and natural gas industries.

b. Sempra Servicios Energéticos, S. de R. L. de C. V. ("SSE") is a holding company that invests in affiliated companies in the electricity and natural gas industries.

c. Fundación IEnova 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 ("IFRSs") 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.

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 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.

2.3. *Reclassifications*

The consolidated financial statements for the year ended December 31, 2014 present a liability for current carbon allowances as a separate line item. Accordingly, current carbon allowances for an amount liabilities of $4,778, for the year ended December 31, 2013, is presented as a separate line item (previously included within the "other" caption) to conform to the presentation as of December 31, 2014.

2.4. *Consolidation of financial statements*

2.4.1. *Consolidation basis*

The consolidated financial statements of IEnova incorporate the financial statements of all entities where it maintains control (its subsidiaries). An investor controls an investee if and only if the investor has all of the following elements:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the investor's returns.

The Company reassesses whether or not controls an entity if the facts and circumstances indicate that there are changes to one or more of the three control elements that were listed above.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Company.

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the years ended December 31, 2015 are as follows.

Company	**Ownership percentage**
	2015
Gas Segment:	
Ecogas México, S. de R. L. de C. V.	100.00
PE International Canadá, 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.	100.00
Transportadora de Gas Natural de Baja California, S. de R. L. de C. V.	100.00
IEnova Gasoductos México, S. de R. L. de C. V. ("IEnova Gasoductos México") (formerly Sempra Gasoductos México, S. de R. L. de C. V.)	100.00
Sempra Compresión México, S. de R. L. de C. V. (Merged in	100.00

2014 with IEnova Gasoductos México, S. de R. L. de C. V.)	
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
Energía Costa Azul, S. de R. L. de C. V. and Subsidiary	100.00
IEnova LNG, S. de R. L. de C. V. (formerly Sempra LNG Marketing México)	100.00
Power segment:	
Termoeléctrica de Mexicali, S. de R. L. de C. V. and Subsidiary	100.00
Controladora Sierra Juárez, S. de R. L. de C. V.	99.99
Corporate segment:	
Sempra Servicios Energéticos, S. de R. L. de C. V.	99.87
Fundación IEnova, A. C.	100.00

As further described in Note 11.2, on July 16, 2014 CSJ sold 50% of the social parts in its indirect subsidiary ESJ; accordingly, the assets and liabilities of ESJ were derecognized and beginning on that date the investment is recorded using the equity method.

2.5. *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.

2.6. *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 which 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.

2.7. *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*

2.9.1. 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.

2.9.2. 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 net investment of the Company with respect to leases.

The rental income under operating leases is recognized using the straight-line method over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and is recognized using the straight-line method over the lease term.

2.9.3. Company as lessee

The assets held under finance leases are 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 liability.

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 charges are charged directly against income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy for borrowing costs (refer to Note 2.16). Contingent rents are recognized as expenses in the periods in which they are incurred.

Rent payments under operating leases are expensed using the straight-line method during the period corresponding to lease more representative unless another systematic basis of assessment to reflect the pattern of the benefits of leasing for the user more accurately. Contingent rents are recognized as expenses in the periods 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 unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed online.

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 Company reports its interests in joint venture using the equity method.

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 other comprehensive income (“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 or loss in the period 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, 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 or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (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 or loss 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 or loss on the disposal of the related assets or liabilities.

When the Company realizes 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

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 Entity, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Entity 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 that:

- 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;

- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share based payments at the acquisition date (as of December 31, 2015, 2014 and 2013 the Company does not have share-based payments); and

- 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 or loss 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. 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 or loss.

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 or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss 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

Goodwill arising from the acquisition of IEnova Gasoductos México by Sempra Energy, and subsequent to Company's contribution (See Note 2.4.1.), has been included in the consolidated financial statements as it forms part of Company's net investment in such entity, and is carried at cost as established at the date of acquisition.

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, on October 1, 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 and loss. 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 or loss 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.

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 and land, 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 or loss.

2.15. 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 or loss.

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 or loss.

2.16. 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 or loss in the period in which they are incurred.

2.17. 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 reporting period. The remeasurements, which include the actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the statement of financial position charged to the credit that is recognized in the consolidated statements of profit and loss and OCI in the period in which they are incurred. The remeasurements recognized in OCI items are not reclassified to profit and 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 period.

Short term and other long term employee benefits include benefits accruing to employees in respect of wages and salaries, annual leave and sick leave during the period of service provided and is recognized by the undiscounted amount of the benefits expected to be paid for that service.

The liabilities for short term employee benefits are valued at the undiscounted amount of the benefits expected to be paid for that service.

Liabilities recognized for other long-term benefits are valued at the present value of estimated future cash outflows that the Company expects to make related to the services provided by employees at the reporting date.

Employee Statutory Profit Sharing ("PTU", by its initials in Spanish). PTU is recorded in the profit or loss of the year when is caused and is included in administrative and other expenses balance in the consolidated statements of profit.

The Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus 20 days wages for each year of service payable upon involuntary termination without justified cause. The Company records a liability for such severance benefits when the event that gives rise to an obligation occurs upon the termination of employment as termination benefits result from either Company's management's decision to terminate the employment or an employee's decision to accept an offer of benefits in exchange for termination of employment.

2.18. 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 of the amount of the obligation can be made.

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.

2.19. 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.

2.19.1. 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.

2.19.2. Fair value

Fair value is defined in subparagraph b of Note 2.2.

2.20. 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.

2.20.1. Method of effective interest rate

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.

2.20.2. 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 2.2b.

2.20.3. 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.

2.20.4. 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.

2.20.5. 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.

2.20.6. 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.

2.21. Financial liabilities and equity instruments

2.21.1. Classification as debt or equity

Debt and equity instruments issued by a Company entity 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.

2.21.2. 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 or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.21.3. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.21.3.1 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 and loss. Fair value is determined as described in Note 22.

2.21.3.2 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.

2.21.3.3.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.

2.22. 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 22.

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.

2.22.1. 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.

2.22.2. 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.

2.23. 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.

2.23.1. 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 or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statements of profit and loss 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.

2.23.2. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss 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.

2.24. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.24.1. Current tax

Income tax and the Business Flat Tax ("ISR" and "IETU", respectively, by their initials in Spanish) are recorded in the results of the year when they are incurred. Taxable profit differs from profit as reported in the consolidated statements of profit because of items of income or expense that are taxable or deductible in other years, items that are not taxable or deductible, and items that are taxable or deductible but do not affect accounting results. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Asset tax ("IMPAC", by its initials in Spanish) paid through 2007 that is expected to be recovered was recorded as an advanced payment of ISR and is classified in the consolidated statements of financial position within other assets.

2.24.2. Deferred taxes

Deferred taxes are presented as long-term and calculated by applying the 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 generally recognized for tax loss carryforwards as well as deductible temporary differences to the extent that it is probable that taxable profits will be available against which those tax losses or deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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 period. The measurement of deferred tax liabilities and assets reflects the tax consequences that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.24.3. Current and deferred tax for the year

Current and deferred tax are recognized in profit, 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. Under the tax legislation in effect during 2013, the entities had to pay the greater of ISR or IETU. If IETU was payable, the payment was considered final; not subject to recovery in subsequent years.

Under the framework discussed in the paragraph above and due to Company's management estimated that the tax payable in future years would be IETU for certain subsidiaries, as of December 31, 2012, the deferred tax effects were determined under the IETU basis.

As of December 31, 2013, given that the IETU Law was repealed, (refer to Note 1.2.6, subparagraph a) the Company wrote off its deferred IETU tax asset, recognizing the effect in its consolidated statements of profit in 2013.

2.25. Revenue recognition

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; value added tax (Impuesto al Valor Agregado, "IVA" by its initials in Spanish).

2.25.1. 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.

2.25.2. Rendering of services

Revenues from service contracts are 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 from natural gas distribution are recognized when the distribution 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.

2.25.3. 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.

2.25.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.2.

2.26. Foreign currencies

The Company's functional currency is the U.S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and Fundación IEnova in the corporate segment, which is the Mexican Peso.

In preparing the 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 or loss 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 or loss.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies of the Company, which are described below, 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.

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and to subsequent 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 lease of natural gas compression station

The Company has a long-term natural gas compression arrangement with PGPB. The contract provides PGPB with the right to use 100% of the compression station's output for 20 years, with an additional five years, in return for fixed capacity payments.

Management has determined that the arrangement 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 9.

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 an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2015, 2014 and 2013 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. U. S. Generally Accepted Accounting Principles ("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 IFRSs. 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 the joint arrangement

Interests in associates and the joint venture 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 or loss 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. See Note 13.1 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)

As described in Note 22, 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 22 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.

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 23, 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. Calculation basis of deferred income tax

Until 2012, based on financial projections, the Company concluded that it essentially would pay ISR. Therefore, the Company recognized deferred income tax based on ISR. Beginning 2013, deferred income tax is calculated only based on ISR due to the repeal of IETU Law.

3.2.8. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 15, 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.

4. Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and banks and investments in instruments in the money market funds, net of bank overdrafts. Cash and cash equivalents at end of period as shown in the cash flow statement can be reconciled to the related items in the statement of financial position as follows:

	12/31/15	12/31/14	12/31/13
Cash and bank balances	$ 32,177	$ 42,844	$ 92,333
Short term investments classified as cash equivalents	8,200	40,793	11,547
	$ 40,377	$ 83,637	$ 103,880

5. Trade and other receivables, net

	12/31/15	12/31/14	12/31/13
Trade receivables	$ 32,895	$ 47,340	$ 49,216
Allowance for doubtful accounts (a)	(147)	(194)	(202)
	32,748	47,146	49,014
Other receivables	20,980	19,255	15,021
	$ 53,728	$ 66,401	$ 64,035

(a) For the Gas segment, in ECO, the Company has recognized an allowance for doubtful accounts of 80% against all receivables outstanding between 180 and 269 days and 100% 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 period 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

	12/31/15	12/31/14	12/31/13
31-120 days	$ 12	$ 12	$ 18
121-180 days	5	7	7
181-270 days	2	4	4
Total	$ 19	$ 23	$ 29
Average age (days)	29	36	56

5.2. Movement in the allowance for doubtful accounts

	12/31/15	12/31/14	12/31/13
Balance as of beginning of the year	$ (194)	$ (202)	$ (193)
Impairment losses recognized on receivables	(30)	(78)	(57)
Amounts written off during the year as uncollectible	48	63	47
Foreign exchange translation gains (losses)	29	23	1
Balance as of end of the year	$ (147)	$ (194)	$ (202)

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 22.9 for more details of the Company's credit risk management and concentration of credit risk assessment.

5.3. Age of impaired trade receivables

	12/31/15	12/31/14	12/31/13
181-270 days	$ (9)	$ (15)	$ (16)
Over 270 days	(138)	(179)	(186)
Total	$ (147)	$ (194)	$ (202)

6. Transaction and balances with unconsolidated affiliates

Balances and transactions between IEnova and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note. Details of transactions between the Company and unconsolidated affiliates are disclosed below.

6.1. Trading transactions

During the year, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues Year ended		
	12/31/15	12/31/14	12/31/13
Sempra Generation, LLC ("SGEN")	$ 143,073	$ 222,471	$ 168,340
Sempra LNG International Holdings, LLC ("SLNGIH")	51,683	-	-
Sempra LNG International, LLC ("SLNGI")	49,138	90,871	90,842
Sempra International, LLC ("Sempra International")	1,711	1,739	1,248
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	1,676	-	-
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	526	-	-
Southern California Gas Company ("SoCalGas")	-	9	143
Sempra Global	-	-	434

	Cost of revenue, administrative and other expenses		
	Year ended		
	12/31/15	12/31/14	12/31/13
SLNGI	$ 190,519	$ 335,025	$ 224,195
SGEN	32,014	31,702	31,953
Sempra International	5,822	7,311	6,759
Sempra U.S. Gas & Power, LLC	6,709	7,106	7,144
SoCal Gas	1,031	1,074	1,402
Sempra Midstream, Inc.	746	448	556
Sempra Services Company, S. de R. L. de C. V. ("Sempra Services Company")*	128	985	1,745
Sempra Servicios México, S. de R. L. de C. V. ("Sempra Servicios México") *	-	517	694
Sempra Global	-	-	65
San Diego Gas & Electric	-	-	28

(*) On December 15, 2015 these companies have been liquidated.

	Finance costs		
	Year ended		
	12/31/15	12/31/14	12/31/13
ISLA	$ 1,455	$ -	$ -
Sempra Oil Trading Suisse ("SOT Suisse")	1,448	1,480	1,494
ISL	485	-	-
Sempra Energy Holdings XI, B. V. ("SEH" or "BVXI")	47	-	-
Sempra Chile, S. A. ("Sempra Chile")	-	-	903
Sempra Energy International Holdings, N. V. ("SEIH")	-	-	350
SGEN	-	4	7
Sempra Global	-	-	7
Sempra Services Company	-	-	1

	Interest income		
	Year ended		
	12/31/15	12/31/14	12/31/13
DEN	$ 4,638	$ 1,828	$ -
ESJ	1,450	826	-
SGEN	11	-	
Sempra Servicios México	2	-	3
Sempra Services Company	-	3	-

The following balances were outstanding at the end of the reporting period:

	Amounts due from unconsolidated affiliates		
	Year ended		
	12/31/15	12/31/14	12/31/13
SGEN	$ 17,066	$ 23,949	$ 24,741
SLNGIH	9,685	-	-
SLNGEL	668	-	-
Sempra International	-	1,336	119
SESJ	138	626	-
ESJ	51	690	-
	$ 27,608	$ 26,601	$ 24,860

	Amounts due to unconsolidated affiliates		
	Year ended		
	12/31/15	12/31/14	12/31/13
SEH (b)	$ 219,600	$ -	$ -
ISLA (a)	90,000	-	-
ISL (a)	30,000	-	-
SLNGI	12,220	14,228	3,031
Sempra International	470	-	-
SGEN	360	9	-
Sempra Services Company	-	85	291
SoCalGas	-	77	106
Sempra Servicios México	-	6	181
Sempra Midstream, Inc	-	-	46
	$ 352,650	$ 14,405	$ 3,655

(a) On March 2, 2015, IEnova entered into a $90.0 million and a $30.0 million of U.S. Dollar-denominated credit facilities with ISLA and ISL, respectively, to finance working capital and for general corporate purposes. The agreements are for nine month terms, with an option to be extended for up to four years. Interest is payable on a quarterly basis at 1.98% of outstanding balances. On December 15, 2015, the Company signed an addendum modifying the initial contracts and the new characteristics are: the note term is extended and is due and payable in full on December 15, 2016. The interest rate applicable shall be computed each calendar quarter at the rate of 1.75% per annum.

(b) On December 22, 2015, IEnova entered into a $219.6 million of 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% of outstanding balances.

During 2012, the Company received short-term loans from SEIH for $86.1 million, which were fully paid during 2013 (refer to Note 1.2.2.). During 2013, the Company paid capital and interest for $85.8 million and $350.0 million, respectively. The loan bore variable interest at the six-month LIBOR plus 250 bps (average annual rate of 3.12% during 2013 and 2012).

Transactions with unconsolidated affiliates as of 2014 and 2013, have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2015, 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.

Included in the operational transactions are administrative services from affiliates of $5.9 million, $8.0 million and $8.8 million for the year ended December 31, 2015, 2014 and 2013, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

6.2. Loans to unconsolidated affiliates

	12/31/15	12/31/14	12/31/13
DEN	$ 85,963	$ 123,867	$ -
ESJ	25,142	22,693	-
SGEN	661	115	-
Sempra Servicios México	-	100	231
Sempra Services Company	-	-	100
	$ 111,766	$ 146,775	$ 331

There are no loans granted to the Company's key management personnel.

6.3. Loans from unconsolidated affiliates

	12/31/15	12/31/14	12/31/13
SOT Suisse(a)	$ 38,460	$ 38,460	$ 38,460
SGEN (b)	-	-	433
	$ 38,460	$ 38,460	$ 38,893

(a) During 2013 the Company paid capital and interest in the amount of $53.2 million and $1.9 million respectively. The loans mature in March 2017 and bear variable interest based on the previous month midterm annual Applicable Federal Rate in U.S. ("AFR") plus 200 bps (an average annual rate of 3.66%, 3.27% and 3.04% in 2015, 2014 and 2013, respectively).

(b) During 2013 and 2012, the Company received long-term loans from SGEN of $737 and $21, respectively. During 2013 and 2012, the Company made payments of principal in the amount of $454 and $587, respectively. The loans mature on December 31, 2027 and bore variable interest based on the previous month midterm annual AFR plus 200 bps (an average annual rate of 2.7% during 2013 and 2012). During 2014, such principal and interest were fully paid.

During 2012, the Company received a long-term loan from Sempra Chile for $215.0 million which bore interest of $0.9 million; during 2013, such and interest were fully paid (refer to Note 1.2.2.). The loan bore variable interest based on 6-month LIBOR plus 250 bps (an average annual rate of 3.0% during 2013). The Company received loans from Sempra Global during 2012 of $122.0 million. During 2013, such loan and interests were fully paid by the Company (refer to Note 1.2.2.). During 2012, the Company made payments of capital and interest for $125.0 million and $0.4 million, respectively. The loans had maturities until December 15, 2027 and bore variable interest based on the previous month midterm annual AFR (an average annual rate of 0.98% during 2013).

7. Compensation of key management personnel

Total compensation paid to key management personal was $8.8 million, $6.5 million and $3.8 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

8. Natural gas inventories

	12/31/15	12/31/14	12/31/13
Liquefied natural gas	$ 4,628	$ 9,375	$ 3,836

The cost of inventories recognized within cost of revenues was $190,172, $327,110 and $230,966 for the years ended December 31, 2015, 2014 and 2013, respectively.

The cost of revenues recognized as expense was $-, $1.0 million and $- for years ended December 31, 2015, 2014, and 2013 respectively, due to write-downs of inventory to net realizable value. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

9. Finance lease receivables

	12/31/15	12/31/14	12/31/13
Current finance lease receivables	$ 156	$ 111	$ 81
Non-current finance lease receivables	14,354	14,510	14,619
	$ 14,510	$ 14,621	$ 14,700

Due to materiality considerations, the Company's management decided to present the current receivable amount within the non-current portion.

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.

9.1. Amounts receivable under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
Not later than one year	$ 5,137	$ 5,136	$ 5,136	$ 156	$ 111	$ 81
Later than one year and not later than five years	22,458	22,458	22,458	2,422	1,116	1,264
More than five years	29,531	34,667	39,376	11,932	13,394	13,355
	57,126	62,261	66,970	14,510	14,621	14,700
Less: unearned finance income	(42,616)	(47,640)	(52,270)	n/a	n/a	n/a
Present value of minimum lease payments receivable	14,510	14,621	14,700	14,510	14,621	14,700
	$ 14,510	$ 14,621	$ 14,700	$ 14,510	$ 14,621	$ 14,700

No residual values of assets leased under finance lease at the end of the reporting period 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 34.48% per annum for 2015, 2014 and 2013.

The receivable under finance lease balance as of December 31, 2015, 2014 and 2013 is neither past due nor impaired.

10. Other assets

	12/31/15	12/31/14	12/31/13 (Note 2.3.)
Prepayments	$ 5,782	$ 5,629	$ 7,694
Accrued interest receivable	-	-	7,286
IMPAC recoverable	2,450	3,429	5,120
Pipeline interconnection rights	1,938	2,285	4,973
Land leases	101	54	371
Natural gas imbalance	243	806	207
Guarantee deposits	-	-	187
	$ 10,514	$ 12,203	$ 25,838
Current	$ 8,576	$ 9,918	$ 20,679
Non – current	1,938	2,285	5,159
	$ 10,514	$ 12,203	$ 25,838

11. Investment in joint ventures

11.1. GdC

The Company owns a 50% interest in GdC, a joint venture with PEMEX Gas Petroquímica Básica ("PGPB"). GdC operates two natural gas pipelines, one natural gas compression station, one propane system in Northern México, in the States of Chihuahua, Tamaulipas and Nuevo Leon, México; and one gas storage facility in the State of Jalisco, México. Construction is currently in process for phase two of the Los Ramones I pipeline, as well as the Los Ramones Norte project held at GdC's equity method investment in DENs. The ethane pipeline project has been concluded. As of December 31, 2015, there has been no change in the Company's ownership or voting rights in this joint venture.

GdC's consolidated financial statements and the Company's equity method investments are summarized as follows:

	12/31/15	12/31/14	12/31/13
Cash and cash equivalents	$ 22,080	$ 74,931	$ 98,869
Short-term investments	10,780	58,233	12,805
Other current assets	55,383	94,086	47,713
Current assets	88,243	227,250	159,387
Finance lease receivables	952,201	346,314	-
Property, plant and equipment, net	320,079	673,714	508,023
Investments in joint venture	131,338	140,160	-
Other non-current assets	1,727	413	476
Deferred income tax asset	12,314	359	-
Non-current assets	1,417,659	1,160,960	508,499
Total assets	$ 1,505,902	$ 1,388,210	$ 667,886
Current liabilities	$ 133,730	$ 31,201	$ 16,345
Non-current liabilities	662,307	724,810	48,853
Total liabilities	796,037	756,011	65,198
Total members' equity	$ 709,865	$ 632,199	$ 602,688
Share of members' equity	$ 354,933	$ 316,100	$ 301,345
Goodwill and indefinite lived intangible assets	64,943	64,943	64,943
Carrying amount investment in GdC	$ 419,876	$ 381,043	$ 366,288

	Year ended		
	12/31/15	12/31/14	12/31/13
Revenues	$ 249,424	$ 496,789	$ 147,478
Expenses	(66,539)	(368,802)	(51,445)
Interest expenses, net	(28,673)	(26,973)	(396)
Share of loss of joint venture, net of income tax	(6,936)	(9,019)	-
Income tax	(64,307)	(42,456)	(26,260)
Net income	$ 82,969	$ 49,539	$ 69,377
Share of profits of GdC	$ 41,485	$ 24,770	$ 34,689

(a) ***Credit agreement.*** On December 5, 2013 GdC entered into a credit agreement for $490.0 million with BBVA Bancomer, Institucion de Banca Múltiple, Grupo Financiero BBVA Bancomer, Bank of Tokyo Mitsubishi UFJ, Ltd., Mitzuho Bank and Norddeutsche Landesbank, for the purpose of funding the Los Ramones I pipelines project. The funding is contracted for a term of 13 years, with quarterly of principal payments, bearing interest at the 90 day LIBOR plus 200 to 275 base points ("basis points") from the anniversary date of the credit agreement. This funding is guaranteed by collection rights of certain GdC projects. Borrowings under the facility began in 2014 and, as of December 31, 2015, GdC has $406.0 million of outstanding borrowings.

(b) On March 7, 2013, GdC made an advance repayment of its long-term debt to Export-Import Bank of the United States of approximately $19.0 million.

(c) On January 22, 2014, GdC entered into an interest rate swap for hedging the interest rate risk on the total of the credit agreement mentioned above at a rate of 2.63%.

(d) Regular investment contribution to TAG Holding: TAG Holding is owned by GdC through its subsidiary, DEN, and partners, TETL JV Mexico Norte, S. de R. L. de C. V. and TAG Pipelines, S. de R. L. de C. V. As of December 31, 2015, the contributions are as follows:

PGPB *	$ 85,963
IEnova *	85,963
	$ 171,926

* Includes interests.

Under the terms of the contract, the contributions made in July, August and November 2014, are presented as loans to DEN. As of December 31, 2015, and 2014 the amounts outstanding have generated interest of $4.6 million and $1.8 million respectively (Please refer to Note 6.2).

(e) On December 19, 2014, TAG Norte Holding, S. de R. L. de C. V. (TAG) (subsidiary company of the GdC Joint Venture), entered into a credit as a debtor, signed a promissory note in favor to Santander, the amount of such credit is in the amount of $1.3 million. In additions TAG contracted a derivative instrument in order to cover the risk of interest rate.

In December 2015, TAG Pipelines Norte S. de R. L. de C. V. (subsidiary company of the GdC Joint Venture) contracted derivative instruments in order to cover the risk of exchange rate. The company entered into Par Forwards with five banks to exchange pesos for dollars of a portion of the revenues of 2016.

11.2 ESJ

On July 16, 2014, Controladora Sierra Juarez, S. de R. L. de C. V. ("CSJ"), a subsidiary of IEnova, completed the sale of a 50% interest in the first phase of ESJ to a wholly owned subsidiary of InterGen N. V. ("InterGen"). The net cash received by this transaction were $25.9 million. The retained interest in ESJ was recorded at its fair value of $25.9 million as a non-cash transaction. The net gain for the sale of ESJ shares was $18.8 million after income tax, included within the other gains (losses) line item in the statements of profit.

The company started operations in June 2015.

As of December 31, 2015, the Company's remaining 50% interest in ESJ is accounted for under the equity method. ESJ condensed consolidated financial statements and the Company's equity method investment are summarized as follows:

	Year ended 12/31/15	Year ended 12/31/14
Cash and cash equivalents	$ 12,930	$ 4,784
Other current assets	21,937	6,339
Current assets	34,867	11,123
Property, plant and equipment, net	276,352	258,885
Other non-current assets	12,347	10,189
Deferred income tax	6,534	7,914
Non-current assets	295,233	276,988
Total assets	$ 330,100	$ 288,111
Current liabilities	$ 7,248	$ 11,815
Non-current liabilities	306,635	259,548
Total liabilities	313,883	271,363
Total members' equity	$ 16,217	$ 16,748
Share of members' equity	$ 8,108	$ 8,374
Goodwill and indefinite lived intangible assets	12,121	12,121
Carrying amount of investment in ESJ	$ 20,229	$ 20,495

ESJ condensed consolidated statement of profit is as follows:

	Year ended 12/31/15	For the period of 07/16/2014 to 12/31/14
Revenues	$ 29,227	$ -
Operating, administrative and other expenses	(13,491)	(571)
Interest (expense) income, net	(9,426)	67
Income tax	(4,642)	(2,343)
Net income (loss)	$ 1,668	$ (2,847)
Share of profits (loss) of ESJ	$ 834	$ (1,424)

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 Bank, Ltd. ("Mizuho") as coordinating lead arranger, the North American Development Bank ("NADB") as technical and modeling bank, and Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFINSA"), Norddeutsche Landesbank Girozentrale ("NORD/LB") and Sumitomo Mitsui Banking Corporation ("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
0 – 1	2.375%
1 – 4	2.375%
5 – 8	2.625%
9 – 12	2.875%
13 – 16	3.125%
17 – 18	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 an amount of $236.6 million. The breakdown of the debt is as follows:

	Debt balance
Mizuho	$ 53,120
NAFINSA	38,633
NORD/LB	53,120
NADB	38,633
SMBC	53,120
	$ 236,626

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.

The cumulative loss recognized in other comprehensive income of $5.1 million of taxes was reclassified from equity to profit and loss upon deconsolidation of ESJ.

c) ***Financing of the project's value added tax ("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 Pesos (approximately $35.0 million historical U.S. dollar equivalent). Interest on each withdrawal will be accrued at the Mexican Interbank Interest Rate ("TIIE") plus 145 basis points payable on a semi-annual basis. The credit line under this contract will be used to finance the VAT on the ESJ project. As of December 23, 2015, ESJ has withdrawn $472.6 million pesos of this line of credit. On such date the Company decided to repay and accordingly canceled the total credit facility.

Other disclosures. The member's agreement provides certain restrictions and benefits to the sale of the membership interest in ESJ. The Partnership 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 México, S. A. de C. V. The guarantees are immaterial as of December 31, 2015.

12. Goodwill

	12/31/15	12/31/14	12/31/13
Cost	$ 25,654	$ 25,654	$ 25,654

There are no accumulated impairment losses.

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to IEnova Gasoductos México'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 discounted cash flow ("DCF") analysis of IEnova Gasoductos México's projected results. The DCF for 2015, 2014 and 2013, was calculated based on a long-term unlevered cash flow forecast using a discount rate of 9.0%, which was the same rate used at the acquisition date.

There are no significant changes in IEnova Gasoductos México'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 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 México), 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.

13. Property, plant and equipment, net

	12/31/15	12/31/14	12/31/13
Carrying amounts of:			
Buildings and plants	$ 2,586,775	$ 2,287,706	$ 2,077,478
Equipment	86,965	64,572	52,960
Other assets	38,843	32,948	27,032
	2,712,583	2,385,226	2,157,470
Accumulated depreciation and amortization	(557,563)	(497,686)	(442,043)
Land	76,524	74,988	74,421
Properties under construction	364,296	415,211	423,989
	$ 2,595,840	$ 2,377,739	$ 2,213,837

	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Cost						
Balance as of January 1, 2013	$ 74,421	$ 2,072,258	$ 43,729	$ 48,298	$ 27,923	$ 2,266,629
Additions	-	16,335	11,097	375,848	2,856	406,136
Disposals	-	(613)	(1,855)	-	(3,684)	(6,152)
Effect of foreign currency translation	-	(931)	(11)	(157)	(63)	(1,162)
Revisions and additions to decommissioning liability	-	(9,571)	-	-	-	(9,571)
Balance as of December 31, 2013	74,421	2,077,478	52,960	423,989	27,032	2,655,880
Additions	571	221,938	11,841	120,269	8,424	363,043
Disposals	-	(7,908)	-	(128,848)	(1,241)	(137,997)
Effect of foreign currency translation	(4)	(14,292)	(229)	(199)	(1,267)	(15,991)
Revisions and additions to decommissioning liability	-	10,490	-	-	-	10,490
Balance as of December 31, 2014	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
Accumulated depreciation						
Balance as of January 1, 2013	$ -	$ (361,080)	$ (6,022)	$ -	$ (14,788)	$ (381,890)
Eliminated on disposals of assets	-	41	18	-	702	761
Depreciation expense	-	(56,044)	(1,136)	-	(3,833)	(61,013)
Effect of foreign currency translation	-	277	1	-	50	328
Other	-	(758)	62	-	467	(229)
Balance as of December 31, 2013	-	(417,564)	(7,077)	-	(17,402)	(442,043)
Eliminated on disposals of assets	-	244	-	-	817	1,061
Depreciation expense	-	(56,571)	(1,043)	-	(4,178)	(61,792)
Effect of foreign currency translation	-	5,113	27	-	882	6,022
Other	-	-	(452)	-	(482)	(934)
Balance as of December 31, 2014	-	(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
Other	-	-	-	-	-	-
Balance as of December 31, 2015	$ -	$ (523,842)	$ (10,606)	$ -	$ (23,115)	$ (557,563)

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 (Secretaría de Medio Ambiente y Recursos Naturales, “SEMARNAT” by its initials in Spanish).

The additions to property, plant and equipment during 2015 and 2014 is comprised mainly of additions to construction in process, the Sásabe-Puerto Libertad section of the Sonora pipeline began operations in October 2014. The first segment was completed in stages, with (Puerto Libertad) section completed in the fourth quarter of 2014 and the final section completed in August 2015. The capacity is fully contracted by the CFE under two 25-year contracts denominated in U.S. dollars, in addition to related to Sonora Pipeline and ESJ Wind projects, (see subparagraph c of Note 1.2.4.).

The Company capitalized borrowing costs on qualifying assets of $15,099, $21,016 and $12,811 for the years ended December 31, 2015, 2014 and 2013, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 3.47%, 5.5%, respectively, for the periods ended December 31, 2015 and 2014 respectively.

13.1. 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
Pipelines system for transportation and distribution of natural gas [1]	34-50
Plant and equipment for generation of electricity [1]	37
Fiber optic network [1]	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

14. Trade and other payables

	12/31/15	12/31/14	12/31/13
Trade payables	$ 43,830	$ 41,436	$ 48,573
Other miscellaneous payables	19	38	886
Trading financial instrument payable (a)	-	18,101	-
	$ 43,849	$ 59,575	$ 49,459

The average credit periods on purchases of goods and services are 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.

a. ***Trading financial instruments***

In 2014 the Company entered into derivative financial instrument agreements to hedge the volatility of the fluctuation of the Peso relative to the Dollar. Certain monetary assets and liabilities of the Company were denominated in Dollars (functional currency); however, they were remeasured in 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. Such derivative financial instrument has been terminated in 2014.

15. Employee benefits

15.1. Defined contribution component

The Company provides a defined contribution plan for all permanent full-time employees in México. Employees that leave the Company obtain the capital accumulated with the contributions according to the following vesting schedule: a) Basic Contribution: 100% immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100% in case of death or disability, and in case of voluntary termination according with the Company policy.

15.2. Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in México. Under the plans, the employees are entitled to retirement benefits varying between 55% and 100% of their final salary upon reaching the retirement age of 65. No other post-retirement benefits are provided to these employees.

15.3. 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.

15.3.1 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		
	12/31/15	12/31/14	12/31/13
Discount rates	8.00%	8.25%	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	$ 17.20	$ 14.72	$ 12.78

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.

	12/31/15	12/31/14	12/31/13
Current service cost recognized in administrative and other expenses	$ 531	$ 381	$ 341
Interest on obligation recognized in finance costs	321	209	167
Actuarial (losses) gain recognized in OCI	(1,793)	357	179

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:

	Year ended		
	12/31/15	12/31/14	12/31/13
Opening defined benefit obligation	$ 3,045	$ 2,684	$ 2,153
Current service cost	531	381	330
Interest cost (benefit)	321	(50)	(2)
Actuarial (gains) loss	(655)	357	178
Exchange differences on plans maintained by Mexican peso functional currency entities	1,102	(294)	52
Benefits paid	(49)	(33)	(27)
Ending defined benefit obligation	$ 4,295	$ 3,045	$ 2,684

16. Other financial liabilities

	12/31/15	12/31/14	12/31/13
Accrued interest payable (a)	$ 5,661	$ 6,561	$ 12,218
Customer deposits	783	662	635
Borrowing (b)	-	-	-
	$ 6,444	$ 7,223	$ 12,853

(a) Balance represents accrued interest payable on long-term debt (see Note 21).

(b) On November 7, 2011, the Company signed a funding agreement with BP Wind Energy North America Inc., for a credit line in the aggregate principal amount up to $1,106. The availability period of the line of credit was originally until January 31, 2012. Interest would accrue on any outstanding amount of advances thereunder from time to time, calculated at a rate of interest per annum equal to, for any given month, the 30-day LIBOR plus 500 basis points (average annual rate of 5.24% for 2012). As of December 31, 2012, the accrued interest was $51.0 million and the Company paid interest in the amount of $26.0. During 2013, the Company fully paid this loan.

17. Other liabilities

	12/31/15	12/31/14	12/31/13
Wages and benefits payable	$ 12,482	$ 11,964	$ 8,869
Other current liabilities	4,755	11,734	2,880
	$ 17,237	$ 23,698	$ 11,749

18. Carbon allowances

The Company is required by California Assembly Bill 32 to acquire carbon allowance for every metric ton of carbon dioxide equivalent emitted into the atmosphere during natural gas transportation. Under the bill, TDM, IEnova's subsidiary, is subject to this extraterritorial regulation, despite being located in Baja California, Mexico since their end users are located in California, United States.

The Company records carbon allowances at the lower of weighted average cost or market value, and includes them as current or non-current on the 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 removes the assets and liabilities from the Statement of Financial Position as the allowances are surrendered.

Carbon allowances are shown in the Statements of Financial Position as follows:

		Year ended	
	12/31/15	12/31/14	12/31/13
Assets:			
Current	$ 5,385	$ 29,864	$ 4,778
Non-current	12,975	229	11,584
	$ 18,360	$ 30,093	$ 16,362
Liabilities (a)			
Current	$ 5,385	$ 29,864	$ 4,778
Non-current	12,611	-	11,151
	$ 17,996	$ 29,864	$ 15,929

(a) Changes in the consolidated statements of financial position were recorded in cost of revenues in the amounts of $18.0 million, $13.9 million and $17.2 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

19. Short-term debt

As of December 31, 2015 and 2014, within other financial liabilities short-term debt includes the following:

	Year ended 12/31/15	12/31/14
Santander (a)	$ -	$ 145,346
SMBC (b) and, (c) for 2015	91,374	51,020
	91,374	196,366
Borrowing costs	(2,867)	(1,277)
	$ 88,507	$ 195,089

a) *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 was Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander Mexico. Interest accrued based on the 3-month LIBOR plus 105 basis points. During July and August, 2015 the Company has 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 costs were recorded in the Consolidated Statements of Profit.

b) *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 basis points. 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.

c) *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 Sumitomo Mitsui Banking Corporation, Banco Santander (México), S. A., Institución De Banca Múltiple, The Bank of Tokyo-Mitsubishi UFJ, LTD., and The Bank of Nova Scotia. Interest accrues based on the 3-month LIBOR plus 90 basis points. As of December 23, 2015, IEnova had $310.0 million of outstanding borrowings supported by the facility. On December 23, 2015 the Company decided to repay $219.0 million (principal) of such credit facility. On December 22, 2015, the Company renegotiated the credit line of such credit agreement for an amount up to $600.0 million, U.S. dollar-denominated. As of December 31, 2015 the available unused credit portion is $509 million.

20. Provisions

	12/31/15	Year ended 12/31/14	12/31/13
Decommissioning liabilities (a)	$ 34,236	$ 38,250	$ 26,430
Other (b)	1,293	1,619	1,945
	$ 35,529	$ 39,869	$ 28,375
Current	$ 1,293	$ 1,619	$ 1,945
Non-current	34,236	38,250	26,430
Total provisions	$ 35,529	$ 39,869	$ 28,375

	Asset retirement obligations	Others	Total
Balance as of January 1, 2013	$ 34,820	$ 2,788	$ 37,608
Additional provisions recognized	1,432	1,945	3,377
Payments and other decreases in provisions recognized	-	(2,788)	(2,788)
Unwinding of discount and effect of changes in the discount rate	(9,822)	-	(9,822)
Balance as of December 31, 2013	26,430	1,945	28,375
Additional provisions recognized	1,330	-	1,330
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	10,490	-	10,490
Balance as of December 31, 2014	38,250	1,619	39,869
Additional provisions recognized Increase financial cost	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

(a) 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 4.66%, 4.14% and 4.98% at December 2015, 2014 and 2013, respectively.

(b) The balance of other provisions include a liability arising from 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%.

21. Long-term debt

		Year ended	
	12/31/15	12/31/14	12/31/13
CEBURES fixed rate (a)	$ 226,659	$ 264,981	$ 298,245
CEBURES variable rate (b)	75,553	88,327	99,415
	302,212	353,308	397,660
Cost of debt	(2,287)	(2,670)	(3,004)
	$ 299,925	$ 350,638	$ 394,656

On February 14, 2013, the Company entered into two public placements of Notes or Certificados Bursatiles (“CEBURES”) as follows:

(a) The first placement was for $306.2 million ($3.9 billion Pesos) bearing interest at a rate of 6.30%, with half-yearly interest payment; maturing in 2023.

(b) The second placement was for $102.1 million ($1.3 billion Pesos) bearing interest at variable rate based on TIIE plus 30basis ponts, with monthly interest payments of interest; maturing in 2018. The average annual rate as of December 31, 2015, 2014 and 2013 was 3.62%, 3.85% and 4.52%, respectively

Cross-currency and interest rate swaps. On February 15, 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 Pesos:

(a) For the debt maturing in 2023, the Company swapped variable rate in Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average rate, in U.S. Dollars through this swap was 4.16%.

(b) For the debt maturing in 2018, the Company swapped fixed rate in Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average rate, in U.S. Dollars through this swap was 2.65%.

The swaps' total notional value is $408.3 million ($5.2 billion Pesos). These contracts have been designated as cash flow hedges.

22. Financial instruments

22.1. Capital management

Decisions on capital management for IEnova are made by directors of the parent and IEnova's key executives. The Parent's risk management committee reviews the capital structure of the Company at its regular sessions. As of December 31, 2014, projects were funded through the resources obtained from the CEBURES and IPO (refer to Notes 1.2.2. and 1.2.3., respectively). 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 ten percent (10%) of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its LNG terminal. As of December 31, 2015, 2014 and 2013 the Company had complied with the above requirements.

22.2. Categories of financial instruments

		12/31/15		12/31/14		12/31/13
Financial assets						
Cash and cash equivalents	$	40,377	$	83,637	$	103,880
FVTPL						
Held for trading		21,994		34,729		216,215
Amortized cost						
Loans and receivables		193,102		239,777		89,226
Financial leasing		14,510		14,621		14,700
Financial liabilities						
FVTPL						
Held for trading	$	133,056	$	107,257	$	63,913
Amortized cost		829,835		665,390		499,516

22.3. 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 and a certain interest rate swap agreement. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

22.4. 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.

22.5. 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% confidence interval in its VaR calculations. The one-day 95% VaR number reflects the 95% 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	12/31/15	Year ended 12/31/14	12/31/13
Interest rate swap	$ 3,761	$ 4,606	$ 4,061
Natural gas purchase and sale	-	-	31
Total VaR exposure	$ 3,573	$ 4,376	$ 3,887

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 22.7 below.

22.6. 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, 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. Any residual exposure is monitored as described above.

22.7. Foreign currency risk management

The Company has investments in entities whose functional currency is not the U. S. Dollar; also, 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		
	12/31/15	**12/31/14**	**12/31/13**
U. S. Dollar functional currency subsidiaries	$ 159,824	$ 174,435	$ 194,573
Mexican Peso functional currency subsidiaries	30,110	26,011	34,920

	Financial liabilities		
	12/31/15	**12/31/14**	**12/31/13**
U. S. Dollar functional currency subsidiaries	$ 585,062	$ 593,099	$ 695,450
Mexican Peso functional currency subsidiaries	31,713	37,531	38,188

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, IVA, ISR and IETU 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, their 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.

	12/31/15	**12/31/14**	**12/31/13**	**02/22/2016**
One U.S. Dollar	$ 17.2065	$ 14.7180	$ 13.0765	$ 18.1439

22.7.1. Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 22.7 above 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 or loss 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%, 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% 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% against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10% 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% against the Mexican Peso. For a 10% 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 currency		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Profit or loss (i)	$ 27,061	$ 17,623	$ 31,874	$ 94	$ -	$ -
OCI	-	-	-	(5,692)	(4,731)	(208)

(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 has increased during the years ended December 31, 2015, 2014 and 2013 mainly due to income tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2015, 2014 and 2013 mainly due to lower intercompany loans with unconsolidated affiliates.

22.8. 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 in U.S. dollars 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 and 2013, there was one remaining interest rate swap agreement with a notional amount of $151,232 and $159,287 in U.S. Dollars under which IEnova received a variable interest rate (three-month LIBOR) and payed a fixed interest rate of 5.0%.

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 22.5.

22.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

The joint venture with PGPB entered into a swap contract to convert its variable interest rate debt, which matured on October 15, 2013, to a fixed interest rate. The notional value as of October 15, 2013 amounted to $13.5 million, hedging the entire outstanding debt with the commercial bank, and the maturity date coincided with that of the debt. The interest was recorded in the gas pipeline construction cost during the construction period, and as part of the financial costs in the joint venture's individual statements of profit and loss as of the commercial startup date.

Additionally, as described in Note 11.2 (b) the joint venture with InterGen entered into a 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 immaterial.

22.9. 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% 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.

22.9.1. Concentration of credit risk

GRO and TGN 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 "Standard & Poors" or other credit rating agency in the U. S. or Canada.

GRO 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 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 LNG's sells natural gas and provides transportation services to three customers. IEnova LNG'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 LNG 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 one sole customer. GAP believes that its credit risk is mitigated since the customers is a governmental entity with high credit rating and pays on a monthly basis.

Following is a table that shows the Company's revenue concentration by customer:

	Segment	12/31/15	12/31/14	12/31/13
Customer 1	Gas	$ 197,559	$ 242,581	$ 168,963
Customer 2	Power	142,329	222,471	168,340
Customer 3	Gas	89,037	91,625	95,571
Customer 4	Gas	51,683	-	-
Customer 5	Gas	49,138	90,871	90,842
Others *		141,957	175,248	154,120
		$ 671,703	$ 822,796	$ 677,836

* Within others, there are no customers with greater than 10% of revenue concentration.

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, 2015, 2014 and 2013, was $172.2 million $234.6 million and $157.9 million, respectively.

22.9.2. Other credit enhancements

The Company held letters of credit to cover its credit risks associated with its derivative financial assets with industrial customers, amounting $27.0 as of December 31, 2013.

22.10. 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, 2013, projects were funded through the resources obtained from the CEBURES and IPO (refer to Notes 1.2.2. and 1.2.3., respectively). The Company´s current liabilities exceed its current assets mainly due to loan from unconsolidated affiliates. As explained in Note 19, the Company has $509 million of unused lines of credits with banks and $400 million available under the current authorized CEBURES program at the Mexican Stock Exchange.

22.10.1. 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 rate	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 19)	1.28	92,523	-	-	-	92,523
Variable interest rate of long-term debt (Note 21)	4.52	3,439	6,879	6,879	85,610	102,807
Fixed interest rate of long-term debt (Note 21)	6.3	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
December 31, 2014						
Non-interest bearing	-	$ 76,717	$ -	$ -	$ -	$ 76,717
Variable interest rate short term debt (Note 19)	1.28	198,944	-	-	-	198,944
Variable interest rate of long-term debt (Note 21)	4.52	4,021	8,042	8,042	104,107	124,212
Fixed interest rate of long-term debt (Note 21)	6.30	16,798	33,596	33,596	247,976	331,966
Variable interest rate loan from SOT Suisse	3.28	1,279	2,558	34,721	-	38,558
		$ 297,759	$ 44,196	$ 76,359	$ 352,083	$ 770,397
December 31, 2013						
Non-interest bearing	-	$ 65,967	$ -	$ -	$ -	$ 65,967
Variable interest rate of long-term debt (Note 21)	4.52	4,526	9,051	9,051	117,176	139,804
Variable interest rate loan from SGEN	2.70	12	24	24	540	600
Fixed interest rate of long-term debt (Note 21)	6.30	18,906	37,813	37,813	279,106	373,638
Variable interest rate loan from SOT Suisse's	3.28	1,279	2,558	38,730	-	42,567
		$ 90,690	$ 49,446	$ 85,618	$ 396,822	$ 622,576

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, 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)

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2014					
Net settled:					
- Interest rate swaps, exchange rate	$ (6,415)	$ 7,258	$ (3,748)	$ 76,795	$ 73,890
- Interest rate swaps	6,808	8,827	5,455	8,271	29,361
	$ 393	$ 16,085	$ 1,707	$ 85,066	$ 103,251

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2013					
Net settled:					
- Interest rate swaps, exchange rate	$ -	$ (19,226)	$ 2,943	$ 52,428	$ 36,145
- Interest rate swaps	7,326	13,896	2,817	350	24,389
- Natural gas purchase/sale	3,379	-	-	-	3,379
	$ 10,705	$ (5,330)	$ 5,760	$ 52,778	$ 63,913

22.11. Fair value of financial instruments

22.11.1. Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, the Company's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	12/31/15		12/31/14		12/31/13	
	Carrying amount	Fair value	Carrying amount	Fair Value	Caarying amount	Fair value
Financial assets						
Financial lease receivables	$ 14,510	$ 57,125	$ 14,621	$ 47,640	$ 14,700	$ 52,270
Financial liabilities						
Financial liabilities held at amortized cost:						
-Long-term debt (traded in stock exchange)	299,925	289,955	350,638	343,584	394,656	374,899
-Short- term debt (not traded in stock change)	88,507	90,035	195,089	193,119	-	-
- Loans from unconsolidated affiliates (not traded in stock exchange)	38,460	37,704	38,460	37,207	38,893	36,573
- Loans from unconsolidated affiliates (not traded in stock exchange)	339,600	334,431	-	-	-	-

22.11.2. 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.

22.11.3. 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 subparagraph b of Note 2.2b.

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, Company's 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

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, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

- 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 (no observable indicators).

The Company's assets and liabilities that were accounted for at fair value on a recurring basis as listed in the table below are classified as Level 1 and 2 within the fair value hierarchy:

	Year ended		
	12/31/15	12/31/14	12/31/13
Financial assets at FVTPL			
Short-term investments (Level 1)	$ 20,068	$ 30,020	$ 207,027
Derivative financial assets (Level 2)	$ 1,926	$ 4,709	$ 9,188
Financial liabilities at FVTPL			
Derivative financial liabilities (Level 2)	$ 133,056	$ 107,257	$ 63,913

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.

22.11.4. 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 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 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.

On May 26, 2006, Sempra LNG entered into a natural gas sales and purchase agreement with RBS Sempra Commodities, LLP ("RBS"), an unconsolidated related party who later novated the contract to J.P. Morgan Ventures Energy Corp. ("JPM") in connection with a sale of assets to JPM, who in turn entered into another agreement with TDM to facilitate the sale and purchase transactions between Sempra LNG and TDM. The agreement includes the nomination and scheduling service of monthly natural gas quantities to be delivered to TDM by Sempra LNG from September 2009 through September 2014 with a notional amount of 70,000 million British Thermal Units ("MMBtus") per day. In the agreement between JPM and TDM, settlement is based on the Southern California Index ("SOCAL Index") price. In the agreement between JPM and Sempra LNG, settlement is based on the SOCAL Index price minus a discount. These agreements were recorded as derivatives at fair value.

ECO uses forward purchase agreements to manage the price risk associated with anticipated future purchases of natural gas on behalf of its customers: industrial, commercial and residential. As of December 31, 2013, the notional amounts of the outstanding positions with industrial customers were 6,000 MMBtus which were realized through 2014. No derivative financial instrument is recognized on the residential customer's part since there is no contractual right or obligation with them for future gains or losses. This contract expired in 2014, therefore there is no notional for 2015.

The Company recognized the change in fair value and the settlements in the "cost of revenue" line item within the consolidated statements of profit.

23. Income taxes

The Company was subject to ISR and IETU, the last one until 2013. The income tax expense was the greater of ISR and IETU up to 2013.

ISR - The rate was 30% for 2014, 2013 and 2012 under the new Income Tax Law 2014 continues at 30% for 2014 and beyond. ISR caused by the Company on a consolidated basis with its subsidiaries until 2012, due to changes in the Fiscal Miscellaneous Resolution I.3.2.14, the Company lost its right to consolidate for tax purposes retroactively, from January 1, 2013, therefore, the tax effects shown at December 31, 2013 in this note, considers the effects of the deconsolidation.

IETU - IETU was eliminated in 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The IETU rate was 17.5%.

23.1. Income taxes recognized in the consolidated statements of profit:

		Year ended	
	12/31/15	**12/31/14**	**12/31/13**
Current income tax:			
ISR	$ (75,085)	$ (72,848)	$ (50,210)
ISR for deconsolidation *	-	-	(21,436)
IETU-IMPAC	(226)	-	-
	(75,311)	(72,848)	(71,646)
Deferred Income tax:			
Deferred income tax	(25,095)	(38,435)	(14,789)
IETU write-off		-	2,643
	(25,095)	(38,435)	(12,146)
Total taxes in the consolidated statements of profit and loss	$ (100,406)	$ (111,283)	$ (83,792)

* Please refer to 1.2.6 a.

Income tax expense is reconciled with the profit before tax as follows:

	Year ended		
	12/31/15	**12/31/14**	**12/31/13**
Profit before income taxes	$ 198,276	$ 224,871	$ 191,493
Income tax expense calculated at 30%	(59,483)	(67,461)	(57,448)
Effects of foreign exchange rate	25,023	(3,813)	(6,706)
Non-deductible expenses	(1,451)	(1,017)	-
Effect of unused tax losses not recognized as deferred income tax asset	(22)	(58)	5,979
Effects of inflation adjustment	(2,938)	(2,845)	(38)
Effect of exchange rate and inflation on the tax bases of property, plant and equipment	(62,116)	(39,252)	11,696
Adjustment to deferred tax attributable to the change in laws	-	-	(21,436)
Non-taxable revenues	1,279	479	-
Effects of sale of subsidiary	-	3,365	-
Effect of deferred income tax balances due to changes in the income tax rate from 28% to 30% (effective beginning January 1, 2014)	-	-	(15,463)
Other	(698)	(681)	(376)
Expense for income taxes recognized in the statement of profit	$ (100,406)	$ (111,283)	$ (83,792)

23.2. Income tax recognized directly in common stock and OCI

	Year ended		
	12/31/15	**12/31/14**	**12/31/13**
Recognized directly in common stock:			
Issuance or ordinary shares under IPO	$ 7,388	$ 7,388	$ 7,388
Recognized directly in OCI:			
Tax on financial instruments valuation held for hedging purposes	4,127	6,528	5,514
Total of income tax recognized directly in common stock and OCI	$ 11,515	$ 13,916	$ 12,902

23.3. *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:

		Year ended	
	12/31/15	12/31/14	12/31/13
Deferred income tax assets:			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	$ 132,973	$ 83,931	$ 54,697
Financial instruments	-	-	267
Accrued expenses and provisions	17,182	24,838	24,034
Effect of combining IEnova Gasoductos México	1,648	1,746	1,844
Employee benefits	4,245	4,106	2,392
Asset from dividends not distributed from net income tax account ("CUFIN", by its initials in Spanish)	1,277	14,592	43,024
Inventories	1,839	3,733	2,086
Allowance for doubtful accounts	171	214	236
Deferred income tax assets for issuance or ordinary shares under IPO	7,388	7,388	7,388
Deferred income tax asset regarding financial instruments valuation held for hedging purposes	8,042	6,061	5,514
Others	(631)	638	20
Total deferred income tax assets	174,134	147,247	141,502
Deconsolidation effect (a)	(95,169)	(61,489)	(35,275)
Deferred income tax asset	$ 78,965	$ 85,758	$ 106,227

		Year ended	
	12/31/15	12/31/14	12/31/13
Deferred income tax liabilities:			
Property, plant and equipment	$ (340,549)	$ (277,756)	$ (227,121)
Finance leases	(4,353)	(4,386)	(4,410)
Prepaid expenses	(4,629)	(5,896)	(5,896)
Other	(6,932)	(5,989)	(3,233)
Total deferred income tax liabilities	(356,463)	(294,027)	(240,660)
Deconsolidation effect (a)	95,169	61,489	35,275
Deferred income tax liabilities	$ (261,294)	$ (232,538)	$ (205,385)

(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 statement of financial position as of December 31, 2015, 2014 and 2013.

23.4. 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:

		Year ended	
	12/31/15	**12/31/14**	**12/31/13**
Assets	$ 78,965	$ 85,758	$ 106,227
Liabilities	(261,294)	(232,538)	(205,385)
	$ (182,329)	$ (146,780)	$ (99,158)

Given changes in circumstances considered for assessing the recoverability of tax-loss carryforward, a deferred income tax asset of $1.8 million was recognized with a benefit in the consolidated statement of profit.

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, 2015, are as follows:

Years	**Tax-Loss Carryforwards**	**IMPAC recoverable**
2016	$ -	$ 91
2017	399	91
2018	11,332	245
2019	1,657	245
2020	1,612	245
2021	52,664	245
2022	4,235	245
2023	39,145	245
2024	131,399	245
2025	200,800	245
Thereafter	-	308
	$ 443,243	$ 2,450

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $132,972 and $2,450, respectively.

23.5. Current tax receivable and payable

		Year ended	
	12/31/15	**12/31/14**	**12/31/13**
Current tax assets:			
ISR receivable	$ 16,226	$ 34,297	$ 15,931
Current tax liabilities:			
ISR payable	$ (14,095)	$ (18,022)	$ (90,130)

24. Stockholders' equity

	Year ended		
	12/31/15	12/31/14	12/31/13
Common stock	$ 762,949	$ 762,949	$ 762,949
Additional paid-in equity	973,953	973,953	973,953
	$ 1,736,902	$ 1,736,902	$ 1,736,902

24.1 Issued member's equity is comprised as follows:

Company stockholder's	Number of social parts	For the year ended at December 31, 2015, 2014 and 2013 (Mexican Pesos) Fixed social parts	Variable social parts	Total	Total Social parts (Thousands of U.S. Dollar)
Semco Holdco, S. de R.L. de C. V.	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 members' meeting on February 15, 2013, member's equity increased was approved at $1.00 Peso per share, which was subscribed and paid by BV11 an unconsolidated affiliate, increasing the value of its social part; also, Company's change of name from Sempra México, S. de R. L. de C. V. to "Sociedad Anónima de Capital Variable" ("S. A. de C. V.", Public limited Company) was approved (see Note 1.2.1). 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

Shareholders' equity consists of nominative shares with no-par value. The theoretical value per share is $10.00 Pesos. The Class I and II represent the fixed and the variable part of shareholders' equity, respectively. Variable capital may be increased without limitation.

On March 6, 2013, BV11 subscribed for a capital increase in Semco Holdco, S. de R. L. de C. V. ("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% of the Shares of BV11 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 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 Pesos).

In connection with the Global Offering, on March 27, 2013, the underwriters in México and abroad exercised the over-allotment option. The amount of over-allotment was $78,106 ($967 million Pesos), related to 28,449,196 shares at the placement price of $34.00 Pesos per share.

On September 14, 2015, the Ordinary and Extraordinary Shareholders' 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 $3.3 billion Mexican Pesos Ordinary and Extraordinary Shareholders' Meetings; of which 330 million ordinary shares were issued. As of December 31, 2015, such shares have not been subscribed nor paid, and therefore no impacts have been reflected in the consolidated financial statements.

25. Declared dividends

During 2015, 2014 and 2013, 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	
July 28, 2015 (*)	$ 170,000
July 22, 2014	$ 164,000
March 1, 2013	$ 39,000
October 7, 2013	117,000
	$ 156,000

(*) Dividends were paid on August 6, 2015.

25.1. Dividends per share

	Cents per share for year ended		
	12/31/15	12/31/14	12/31/13
IEnova	$ 0.15	$ 0.14	$ 0.14

26. Segment information

26.1. Products and services from which reportable segments derive their revenues

Information reported to the chief operating decision maker 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 under IFRS 8, Operating Segments, are described and presented in Note 1.3.

The following tables show selected information by segment from the consolidated statements of profit and loss and consolidated statements of financial position:

26.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment revenue		
	12/31/15	12/31/14	12/31/13
Gas:			
Revenues from customers	$ 425,618	$ 507,312	$ 416,829
Revenues from unconsolidated affiliates	100,821	90,871	90,985
Intersegment sales	255,012	301,870	252,117
Power:			
Revenues from unconsolidated affiliates	143,498	222,471	168,340
Intersegment sales	46,237	66,085	52,950
Corporate:			
Allocation of professional services with unconsolidated affiliates	1,766	2,142	1,682
Intersegment professional services	35,527	27,468	35,854
	1,008,479	1,218,219	1,018,757
Intersegment adjustment and eliminations	(336,776)	(395,423)	(340,921)
Total segment revenues	$ 671,703	$ 822,796	$ 677,836

	Segment profit		
	12/31/15	12/31/14	12/31/13
Gas	$ 179,049	$ 161,120	$ 180,296
Power	(4,362)	28,611	8,567
Corporate	(34,498)	(52,797)	(46,473)
Total segment profit	$ 140,189	$ 136,934	$ 142,390

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit earned by each segment. This is the measure reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance.

26.3. Assets and liabilities by segment

	12/31/15	12/31/14	12/31/13
Assets by segment:			
Gas	$ 2,916,917	$ 2,684,488	$ 2,413,965
Power	382,763	417,601	433,894
Corporate	207,402	278,129	394,049
Consolidated total assets	$ 3,507,082	$ 3,380,218	$ 3,241,908
Liabilities by segment:			
Gas	$ 346,106	$ 334,572	$ 272,298
Power	66,493	76,076	64,794
Corporate	914,619	720,282	588,404
Consolidated total liabilities	$ 1,327,218	$ 1,130,930	$ 925,496

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 as described in Note 12., and
- All liabilities are allocated to reportable segments.

26.4. Other information by segment

	Property, plant and equipment			Accumulated depreciation		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
Gas	$ 2,687,691	$ 2,414,223	$ 2,138,129	$ (370,690)	$ (326,875)	$ (287,407)
Power	450,665	447,038	504,595	(180,461)	(165,795)	(150,791)
Corporate	15,048	14,164	13,156	(6,413)	(5,016)	(3,845)
	$ 3,153,404	$ 2,875,425	$ 2,655,880	$ (557,564)	$ (497,686)	$ (442,043)

	Depreciation and amortization			Additions to property, plant and equipment		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
Gas	$ 50,909	$ 45,403	$ 44,605	$ 308,137	$ 291,424	$ 337,545
Power	15,257	15,234	15,420	6,436	70,611	63,345
Corporate	1,516	1,306	1,139	1,071	1,008	5,246
	$ 67,682	$ 61,943	$ 61,164	$ 315,644	$ 363,043	$ 406,136

	Interest income			Finance (cost) income		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
Gas	$ 562	$ 529	$ 1,140	$ 22,856	$ 30,322	$ 12,046
Power	1,493	817	5	(25)	1,182	683
Corporate	4,688	1,953	227	(32,934)	(30,361)	(17,764)
	$ 6,743	$ 3,299	$ 1,372	$ (10,103)	$ 1,143	$ (5,035)

	Share of profits of joint ventures			Income tax expense		
	12/31/15	12/31/14	12/31/13	12/31/15	12/31/14	12/31/13
Gas	$ 41,485	$ 24,770	$ 34,689	$ (99,988)	$ (87,581)	$ (57,165)
Power	834	(1,424)	-	(4,167)	(8,932)	9,158
Corporate	-	-	-	3,749	(14,770)	(35,785)
	$ 42,319	$ 23,346	$ 34,689	$ (100,406)	$ (111,283)	$ (83,792)

26.5. Revenue by type of product or services

The following is an analysis of the Company's revenue from its major type of product or services:

	12/31/15	Year ended 12/31/14	12/31/13
Power generation	$ 143,073	$ 222,471	$ 168,340
Sale of natural gas	139,732	230,003	169,832
Storage and regasification capacity	93,652	93,744	93,785
Natural gas distribution	81,411	109,330	99,235
Transportation of natural gas	95,520	56,915	44,335
Other operating revenues (a)	118,315	110,333	102,309
	$ 671,703	$ 822,796	$ 677,836

(a) Due to a lack of LNG cargoes, IEnova LNG, S. de R. L. de C. V. (formerly Sempra LNG Marketing México, S. de R. L. de C. V.) received payments from SLNGI and SLNGIH related to the losses and obligations incurred in the amount of $101.0 million, $90.8 million and $90.9 million for the year ended December 31, 2015, 2014 and 2013, respectively; such balances are presented within the revenues line item in the consolidated statements of profit.

27. Interest income

	12/31/15	Year ended 12/31/14	12/31/13
Interest income:			
Bank investments	$ 642	$ 759	$ 1,369
Unconsolidated affiliates	6,101	2,540	3
	$ 6,743	$ 3,299	$ 1,372

The following is an analysis of interest income by category of asset.

	12/31/15	Year ended 12/31/14	12/31/13
Held-to-maturity investments	$ 642	$ 759	$ 1,369
Loans and receivables (including cash and bank balances)	6,101	2,540	3
	$ 6,743	$ 3,299	$ 1,372

28. Operating, administrative and other expenses

	12/31/15	Year ended 12/31/14	12/31/13
Employee benefits expenses	$ 38,208	$ 34,141	$ 23,221
Purchased materials	12,038	11,316	12,274
Purchased services	36,804	34,976	47,409
Outside services and others	17,163	17,951	16,781
	$ 104,213	$ 98,384	$ 99,685

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.

29. Other (losses) and gains

	Year ended		
	12/31/15	12/31/14	12/31/13
Net foreign exchange losses	$ (8,548)	$ (9,057)	$ (2,303)
Gain on sale of equity interest in subsidiary	-	18,824	-
Net (loss) gain arising on financial liabilities classified as held for trading (a)	(5,663)	(12,424)	8,272
Other gains	2,636	3,915	1,017
	$ (11,575)	$ 1,258	$ 6,986

(a) The amount represents a change in fair value arising from the interest rate swap (see Note 22.8) and the related settlements.

30. Finance (costs) income

	Year ended		
	12/31/15	12/31/14	12/31/13
Interest on loans from unconsolidated affiliates	$ (5,438)	$ (1,596)	$ (2,761)
Decommissioning liabilities accretion expense	(1,597)	(1,330)	(1,432)
Interest of long-term loan	(16,363)	(16,363)	(13,636)
Capitalized interest (a)	15,099	21,016	12,811
Other finance costs	(1,804)	(584)	(17)
	$ (10,103)	$ 1,143	$ (5,035)

(a) Refer to Note 13, for the capitalized interest on qualified assets.

31. Depreciation and amortization

	Year ended		
	12/31/15	12/31/14	12/31/13
Depreciation of property, plant and equipment	$ 67,531	$ 61,792	$ 61,013
Amortization of other assets	151	151	151
Total depreciation and amortization expense	$ 67,682	$ 61,943	$ 61,164

32. Basic and diluted earnings per share

	Year ended		
	12/31/15	12/31/14	12/31/13
Basic and diluted earnings per share in U.S. Dollar	$ 0.12	$ 0.12	$ 0.13

32.1. 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		
	12/31/15	**12/31/14**	**12/31/13**
Earnings used in the calculation of basic and diluted earnings per share	$ 140,189	$ 136,934	$ 142,390

	Year ended		
	31/12/15	**31/12/14**	**31/12/13**
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,154,023,812	1,154,023,812	1,123,885,851

Due to Company exchanged its social parts for shares (see Note 24.1.) during the year ended December 31, 2013, the basic and diluted earnings per share were calculated retrospectively to December 31, 2013, considering the same number of exchanged shares.

The Company does not have potentially dilutive shares.

33. Commitments

33.1. Sale 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 five to 25 years and from 800 to 1,307,000 Dth/d, respectively.

b. TGN entered into a 20-year FTSA with a third party that began when LNG Terminal commenced operations. The FTSA provides for 540,000 MMBtus per day of reserved capacity.

c. ECA has a contract to sell 50% of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned up to 29% 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 Sásabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.

f. The Company entered into sale of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MMBtus daily.

33.2. Purchase commitments

a. TDM signed a five year contract for the sale of natural gas with RBS Sempra Energy Trading México, S. de R. L de C. V., an unconsolidated affiliate, starting from September 1, 2009. As of May 1, 2011, the contract was assigned to JPM Energy Ventures México, S. de R. L de C. V. ("JPM"). TDM is obligated to buy and JPM is required to supply a load equal volume daily basis, but not less than the minimum amount (70,000 MMBtus per day) or more than the maximum amount (105,000 MMBtus / d). Please refer to note 1.3.2 a.

During 2014 and 2013, payments under the contract were $119,575 and $92,620, respectively; such contract was replaced with SLNGM in 2015.

b. Through an agreement which assigned rights and obligations from Rumorosa Wind Energy, S. de R. L. de C. V. to ESJ, ESJ has acquired the rights to a 30-year land lease agreement with the Ejido Jacume to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 30-year term, and includes a four year grace period starting with the beginning of excavation for turbine foundations. If commercial generation of wind power is successfully developed, ESJ will pay a leasing fee to Ejido Jacume equal to 4% of gross revenues from the sale of electricity for the duration of the agreement.

ESJ, and Ejido Cordillera La Molina and Parque Eólico La Rumorosa, S. A. de C. V. entered into a land lease agreement under which ESJ acquired rights to use land for generating and transmitting electricity using wind turbines. ESJ made up-front payments of $750 and was obligated to make quarterly payments of $30.0 during the first five years or until the start of commercial operations. In addition, $1,500.0 was due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 250 MW, and $300.0 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 3% of gross revenues from the sale of electricity for the first 20 years, increasing to 4% thereafter. Company's management believes all costs and expenses related to this agreement have been properly recognized within administrative and other expenses in these consolidated financial statements.

During 2015, 2014 and 2013, payments under the agreement were $1,158.0, $144.0 and $144.0 respectively. Future contractual cash payments are as follows:

Year	Amounts
2016	$ 120
2017	120
2018	120
Thereafter	2,280
	$ 2,640

c. 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 made up-front payments of $296.0 and 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 % of gross revenues from the sale of electricity for the remainder of the term.

During 2015, 2014 and 2013, payments under the agreements were $283.0, $294.0 and $294.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2016	$ 310
2017	294
2018	294
	$ 898

d. ESJ has received its environmental impact manifest permit (Manifiesto de Impacto Ambiental, "MIA" by its initials in Spanish). The MIA is the principal environmental permit in México, and is issued by SEMARNAT. Company's management believes all costs and expenses related to this permit have been properly recognized within administrative and other expenses in these consolidated financial statements; however, future costs could be incurred.

e. The Company leases the building space of its administrative offices in the cities of (Tijuana only in 2013), Mexicali, Chihuahua, Durango, and México City. During 2015, 2014 and 2013, the rent expense amounted to $2,254.0 $2,477.0 and $1,976.0, respectively.

The leases expire in 2015 through 2021 and establish the following future contractual payments:

Years	Amounts
2016	$ 2,121
2017	2,048
2018	1,566
Thereafter	1,087
	$ 6,822

f. 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, which TDM estimates to be approximately 15 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 2015, 2014 and 2013 fixed payments, under the LTSA, were $299.0, $397.0 and $645.0, respectively; variable payments under such LTSA were $3,838.0, $5,168.0 and $6,484.0, respectively.

Future contractual cash payments under the LTSA are as follows:

Years	Amounts
2016	$ 496
2017	397
2018	397
Thereafter	1,190
	$ 2,480

g. During 2008, ECA entered into a service agreement with a third party which provides extended service and maintenance for turbines utilized at the LNG Terminal. The agreement provides for a monthly fee which covers operational support and extended product warranty. The agreement also provides for an additional cost for major turbine maintenance, which 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 2015, 2014 and 2013, payments under the agreement were $1,826.0, $1,560.0 and $1,511.0, respectively. Future contractual cash payments are as follows:

Years	Amounts
2016	$ 4,144
2017	4,254
2018	441
	$ 8,839

h. ECA entered into various technical service and maintenance agreements with third parties. During 2015, 2014 and 2013, payments under such agreements were $10,016.8, $5,237.0 and $10,747.0, respectively. Future contractual cash payments of such commitments are as follows.

Years	Amounts
2016	$ 9,594
2017	1,941
2018	1,200
Thereafter	20,400
	$ 33,135

i. 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.

During 2015, 2014 and 2013, payments under the agreement were $4,707.0 and $5,004.0 and $1,800.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2016	$ 2,098
2017	1,981
Thereafter	2,021
	$ 6,100

j. 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 is comprised of two segments; the first one, is for an approximate length of 505 Km, 36-inch diameter pipeline with 770 Mmcfd of transportation capacity (already in service); and the second one, is for an approximate length of 330 Km, 30-inch pipeline with 510 Mmcfd of transportation capacity. The estimated price per Mmcfd is approximately $0.25. The Company estimates the total cost of the Sonora Pipeline pipeline will be approximately $1.0 billion. The capacity of the Sonora 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 Sonora 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.

k. In order to carry out the construction of the Sonora pipeline project, the Company has entered into gas supply contracts with several suppliers:

- On November 20, 2012, GAP signed a contract with Stupp Corporation (a division of Stupp Bros., Inc.); the work took place in several stages and was completed in August, 2015. The contract value was $155,335; in this transaction Sempra Energy was the guarantor to Stupp Corporation, for the total value of the contract, less the amounts paid by GAP.

- On December 12, 2012, GAP held a contract with Tubacero, S. de R. L. de C. V. and Distribuidora Tubacero, S. de R. L. de C. V.; the work took place in several stages and was completed in July 2014. The supply contract value was $123.3, and as a guarantee of compliance, GAP issued an irrevocable standby credit letter for $28.6 regarding the 20% in advance of the contract plus VAT, with due date on January 4, 2013.

- On February 1, 2013, GAP held a contract with Tuberías Procarsa, S. A. de C. V.; the work took place in several stages and it was completed in August 2015. The supply contract value was $53.9 million, and as a guarantee of compliance, GAP issued an irrevocable standby letter of credit for $28.5 million regarding the 47% in advance of the contract plus VAT, with a maturity date of May 14, 2013.

l. During November and December, 2012, the Company entered into trust agreements with the Governments of the Mexican States of Sonora and Sinaloa, for a total of $87.8 million, for such trust agreement, and for which the Company paid it. These contracts were entered into in order to comply with the bidding rules of the CFE's tender for the construction and operation of Northwest gas Pipeline. The trust assets will cover the costs and expenses of real estate rights, permits and studies required for the construction and operation of the Northwest gas Pipeline.

m. On December 13, 2012, Gasoductos del Sureste, S. de R. L. de C.V. ("Gasoductos del Sureste", wholly owned subsidiary of GdC, a joint venture with PGPB), entered into a transportation agreement of ethane and liquid ethane with PGPB between Gas Processors Centers ("CPG", by its initials in Spanish) of Ciudad PEMEX (Tabasco, México), Nuevo PEMEX (Tabasco, México), Cactus (Chiapas, México), Complejo Etileno XXI and the Petrochemical Complex Cangrejera (both in Coatzacoalcos, Veracruz, México). Gasoducto del Sureste is responsible for the construction of transportation works and its maintenance, which will have an approximate length of 140 miles (225 Km, approximately). The scheduled term of the works and commencement date of commercial operation is June 30, 2014; the contract has a term of 21 years, from the date on which the first segment begins commercial operation. Gasoducto del Sureste is also liable to obtain and maintain all permits, as well as comply with all labor obligations according to the Mexican Law; also, Gasoductos del Sureste has to comply with the applicable law to protect the environment, and reporting in writing to PGPB the physical and financial progress of the work. Gasoductos del Sureste guaranteed to PGPB the fulfillment of its obligations through a corporate guarantee and a standby credit letter for $30.0 million, up to the date of commercial operation and, after that date, up to an amount equals to the largest among between: (a) 10% of the estimated amount to deliver by PGPB for payment of transportation services per year, or (b) the 10% of the annual average estimated amount to exercise in all subsequent years during the term of the contract for the correct and timely compliance.

    The estimated construction costs of the pipeline are approximately $330.0 million.

n. In January 2013, PEMEX announced the first phase of the project known as "Los Ramones", which consists of a natural gas distribution system of approximately 1,000 Km, which will pass through four Mexican states: Tamaulipas, Aguascalientes, Queretaro and Guanajuato, bordering with the U. S., and reaching Los Ramones in Nuevo Leon, México, and that will be developed by GdC. The pipeline network will incorporate tubes with diameters of 48, 42 and 24 inches and will feature five compression stations. The 17% demand for gas in the Centre - West of México will be satisfied with this infrastructure.

o. On January 1, 2013, the Company entered into an Information Technology Services Agreement with Sempra U.S. Gas & Power (a related party in U.S.). Pursuant to this agreement, Sempra U.S. Gas & Power will provide certain software and information technology services, including software, support and security services. The Company paid $6.7 million, $7.1 million, $7.1 million for 2015, 2014 and 2013, respectively. This agreement has an initial term of five years.

p. 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 $5.8 million, $7.3 million, $6.7 million for 2015, 2014 and 2013, respectively. The contract has indefinite term.

q. *Pipeline Gasoducto Sonora.* According to the turnkey contract with GDI SICIM Pipeline (GSP) for the construction of the Sonora project, GSP is committed to complete the construction works according to the technical specifications indicated in the tender and the natural gas transportation service contracts between GAP and CFE, complying with GAP's schedule and construction plan; with proven and fully operating facilities. The project construction materials will be supplied by GAP; also, GAP will be responsible for obtaining the rights of ways required for the construction and operation of the gas pipeline network.

The construction of the project will include two segments; the first will have a length of approximately 505 Km, diameter of 36 inches a transportation capacity of 770 Mmcfd; and the second, will have a length of approximately 330 Km, diameter of 30 inches and a transportation capacity of 510 Mmcfd. The construction of the first segment started on the execution of the contract and was concluded in the 4th quarter of 2014. The second segment commenced in September 2013 and was concluded on February 15, 2015.

The contract price for the construction of the first segment will be $117.0 million until termination, with the option to extend to the second segment.

r. *Ojinaga - El Encino.* 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% of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion CFPD.

- In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Ojinaga – El Encino pipeline, GAP issued an irrevocable standby credit letter, for $90.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until March 29, 2042.

- During March, 2015, the Company entered into trust agreements with the Governments of the Mexican States of Chihuahua, for a total of $7.9 million, for such trust agreement, and for which the Company paid advances in April and October 2015 for $0.8 and $3.8 million, respectively. These contracts were entered into in order to comply with the bidding rules of the CFE's tender for the construction and operation of gas pipeline.

- On February 9, 2015, GAP held a contract with Tuberías Procarsa, S. A. de C. V. The supply contract value is $62.0 million.

- According to the turnkey contract with Bonatti S.A.P. for the construction of the Ojinaga – El Encino project, Bonatti S.A.P. is committed to complete the construction works according to the technical specifications indicated in the tender and the natural gas transportation service contracts between GAP and CFE, complying with GAP's schedule and construction plan; with proven and fully operating facilities. The project construction materials will be supplied by GAP; also, GAP will be responsible for obtaining the rights of ways required for the construction and operation of the gas pipeline network. The contract price for the construction will be $101.0 million until termination.

s. *San Isidro to Samalayuca.* During 2015, the 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.

- In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the San Isidro - Samalayuca pipeline, GAP issued an irrevocable standby credit letter, for $20.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until January 30, 2042.

- During August 2015, the Company entered into trust agreements with the Governments of the Mexican States of Chihuahua, for a total of $2.7 million, for such trust agreement, and for which the Company paid advances in September 2015 for $0.2 million. These contracts were entered into in order to comply with the bidding rules of the CFE’s tender for the construction and operation of gas pipeline.

- During August 2015 the Company entered into according to the turnkey contract for the solar turbines for the project, the value is $32.0 million until termination estimated on June 2016.

t. *Energía Sierra Juárez.* According to Wind Turbine Supply and Warranty Agreement, for developing the first phase of the Energía Sierra Juárez project, the contracting parties agreed: (i) ESJ, ESJ Turbinas and ESJ Turbinas II will acquire from Vestas, jointly, 47 wind turbines, as well as the option to acquire 5 more turbines, (ii) IEnova will act as the guarantor of the obligations of ESJ Turbinas and ESJ Turbines II under the supply contract, and (iii) Vestas will provide maintenance services to wind turbines to ESJ.

   The supply contract price is $159.0 million.

u. On July 10, 2013, regarding the development of first phase of the Energía Sierra Juárez project, ESJ, ESJ Turbinas, ESJ Turbinas II and Anemo Energy, S. de R. L. de C. V. (“Anemo Energy”) entering into an Engineering, Procurement and Construction Agreement. Under the terms of the agreement, Anemo Energy will provide technical assistance, engineering services, construction management for the completion of a wind-powered electric generating facility with a maximum capacity from approximately 156 to 174 MW.

   The contract price is $73.7 million.

33.3. Natural gas commitments

a. On July 19, 2013, GdC entered into a contract with PGPB for providing natural gas transportation service, for 25 years regarding all of the transport capacity of the pipeline network known as “Los Ramones I”.

b. On August 27, 2015 IEnova LNG entered into a contract with SGEN, for providing natural gas with maximum contract quantity for 8,100 MMBtu with price of $0.035/MMBtu until August 31, 2018.

c. On August 20, 2015 IEnova LNG entered into a contract with Igasamex Bajío S. de R.L. de C.V., for providing natural gas with maximum contract quantity for 8,100 MMBtu with price of $0.07/MMBtu until August 31, 2018.

d. On July 1, 2015 IEnova LNG entered into a contract with Sempra LNG International Holdings, LLC, to transfer profits and losses under the deed of indemnity until August 30, 2029.

Other commitments-

e. As mentioned in Note 11.1, the Company has made capital increase contributions to TAG Holding.

f. As mentioned in Note 11.2, the Company has signed a bank loan, which is guaranteed by the ESJ project.

34. Contingencies

34.1 Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de Administración 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.

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:

<u>Matters on ECA</u>

a. *Motions for review (recurso de revisión) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdéz Castañeda ("Castro* and *Valdez"),* jointly, and Mónica Fabiola Palafox ("Palafox"), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaría 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 *Valdéz,* SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, *Valdéz* 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, Valdéz* and *Palafox* are unfounded.

The judgment of nullity of Castro is pending. In the case of *Palafox,* the situation has not changed compared to the previous report.

b. Motion for annulment *against ECA's port concession, filed by IVG.* In January 2005, IVG filed before the Ministry of Communications and Transport *(Secretaría 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 revocación)* 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, we report 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 Pacífico, S.A. de C.V. ("IBP").* In 2006, IBP started an action / "popular claim" before the Federal Attorney General Office of Environmental Protection *(Procuraduría Federal de Protección 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 Ramón Eugenio Sánchez Ritchie ("Sánchez Ritchie").* In June 2010, *Sánchez 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 *Sánchez Ritchie* named as defendants 17 governmental agencies, including SEMARNAT, the Regulating Energy Commission *(Comisión Reguladora de Energía, 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, *Sánchez 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. *Sánchez 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 *Sánchez 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 *Sánchez 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. *Ramón Eugenio Sánchez Ritchie* filed a direct constitutional claim and it is pending of resolution in the First Collegiate Court.

e. *Municipal claim filed by Sánchez Ritchie.* In February 2011, *Sánchez Ritchie* filed a complaint before the Directorate of Urban Control *(Dirección 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 *Sánchez 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 *Ramón Eugenio Sánchez 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 *Ramón Eugenio Sánchez 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 *(Secretaría 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 unfounded.

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 it is expected to have a resolution within eight months from the hearing.

g. *Criminal Investigation.* In May 2009, *Sánchez 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 *Sánchez 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 *Sánchez 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 *Sánchez Ritchie* from the immovable property. In the criminal complaints filed in 2009, *Sánchez 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,

Sánchez 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 *Sánchez 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 has not issued a resolution about it. The Company deems that the claims of *Sánchez Ritchie* are unfounded.

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.

Affairs 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. Once TP submits its expert opinion, the judge shall determine the trial within 15 days. The request filed by TP for the final suspension is also pending. The management of the Company deems that TP's claims are unfounded.

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.

35. Application of new and revised International Financial Reporting Standards

a. *Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2015.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

The Company has applied the amendments for the first time in the current year. Prior to the amendments, the Company accounted for discretionary employee contributions to defined benefit plans as a reduction of the service cost when contributions were paid to the plans, and accounted for employee contributions specified in the defined benefit plans as a reduction of the service cost when services are rendered. The amendments require the Company to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.

- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Company recognizes the reduction in the service cost in the period in which the related services are rendered.

These amendments have been applied retrospectively. The application of these amendments has had no material impact on the disclosures or the amounts recognized in the Company's consolidated financial statements.

Annual Improvements to IFRSs 2010 - 2012 Cycle* and *2011 – 2013 Cycle

The Company has applied the amendments to IFRSs included in the *Annual Improvements to IFRSs 2010-2012 Cycle* and *2011 – 2013 Cycle* for the first time in the current year. One of the annual improvements requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 *Operating Segments*. The Company has aggregated several operating segments into a single operating segment and made the required disclosures in Note 26 in accordance with the amendments. The application of the other amendments has had no impact on the disclosures or amounts recognized in the Company's consolidated financial statements.

b. ***New and revised IFRSs in issue but not yet effective***

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 14	Regulatory Deferral Accounts
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IFRS 16	Leases[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments for IAS 27	Separate Financial Statements[3]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted".

IFRS 9 ***Financial Instruments***

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2014 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2015 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires a Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about a Company's risk management activities have also been introduced.

The Company's management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company undertakes a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the Company satisfies a performance obligation

Under IFRS 15, a Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Company's management anticipates that the application of IFRS 15 in the future may does not have a material impact on the amounts reported and disclosures made in the Company's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

IFRS 14, ***Regulatory Deferral Accounts***

IFRS 14, "*Regulatory Deferral Accounts*", was issued in January 2014 and applies to annual reporting periods beginning on or after 1 January 2016, earlier application is permitted. The standard specifies the financial reporting requirements for 'regulatory deferral account balances' that arise when a Company provides goods or services to customers at a price or rate that is subject to rate regulation. It permits a Company which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP."

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.

The Company's management anticipates that the application of IFRS 16 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Company undertakes a detailed review.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 11 may have an impact on the Company's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company's consolidated financial statements.

Amendments to IAS 16 IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The Company's management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Company's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent Company that is a subsidiary of an investment Company, even if the investment Company measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment Company to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Company's consolidated financial statements as the Company is not an investment Company and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment Company.

Amendments to IAS 27, Separate Financial Statements

Amendments to IAS 27, "Separate Financial Statements", were issued in August 2014 and apply to annual reporting periods beginning on or after January 1, 2016, with earlier application being permitted. The standard reinstates the equity method (as described in IAS 28 "Investments in associates and Joint Ventures") as an accounting option for investments in subsidiaries, joint ventures and associates in a Company´s separate financial statements. The amendment continues the allowance to account such investments in separate financial statements at cost or in accordance with IFRS 9 "Financial Instruments" (or IAS 39 "Financial Instruments: Recognition and Measurement" for entities that have not yet adopted IFRS 9). The chosen accounting option must be applied by category of investments. Finally, the amendments are to be applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when a Company reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply.

The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Company's consolidated financial statements.

36. Events after reporting date

In February 2016, management approved a plan to market and sell Sempra Mexico's Termoeléctrica de Mexicali, a 625-MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As a result, in February 2016, we ceased depreciating the plant and classified as an asset held for sale. Although we believe fair value approximates or exceeds the carrying value of the asset, in the event that the estimated sales price from the planned sale of Termoeléctrica de Mexicali is less than the carrying value, the Company may recognize an impairment loss in the Consolidated Statements of Profit.

37. Approval of financial statements

The accompanying consolidated financial statements were authorized for issuance on February 22, 2015, by Arturo Infanzón Favela, Executive Vice President of Operations and Finance, 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.

38. Registered offices

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juárez, C.P. 06600
  México, D. F.

- Carretera Escénica Tijuana – Ensenada Km. 81.2
  Col. El Sauzal, C. P. 22760
  Ensenada, B.C.

- Carretera Mexicali Tijuana Km. 14.5
  Col. Sonora, C. P. 212110
  Mexicali, B.C.

- Avenida Tecnológico No. 4505
  Col. Granjas, C. P. 31160
  Chihuahua, Chih.

- Boulevard Francisco Eusebio Kino No. 309
  Piso 10, Col. Country Club
  Hermosillo, Son.

* * * * * *

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.

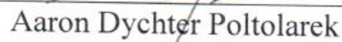
It is hereby informed that, during the year 2015 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

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

24 de febrero de 2015

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 2014.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 25 de febrero de 2014, 25 de abril de 2014, el 22 de julio de 2014 y el 21 de octubre de 2014. 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 contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2014 fueron:

(i) Se implementó un marco de administración de riesgos por recomendación del Comité,

(ii) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(iii) 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

February 24, 2015

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, 2014.

During the fiscal year in question, the Committee met 4 times, on February 25, 2014 April 25, 2014, on July 22, 2014 and on October 21, 2014. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends. The main resolutions adopted by the Committee in the meetings held in the year 2014 were:

(i) A risk management framework was implemented per recommendation of the Committee,

(ii) Ratify Mr. Gerardo Higareda Rivero as internal auditor

(iii) 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

como los honorarios profesionales por sus servicios.

(iv) Aprobar los estados financieros y reportes de prensa correspondientes al año terminado el 31 de Diciembre de 2013, y primero segundo y tercer trimestre de 2014, presentados al Consejo de Administración,

(v) Aprobar los planes de auditoria para los años 2014 y 2015,

(vi) Aprobar el plan de trabajo y calendario del Comité para 2014,

(vii) Aprobar los reportes presentados por el auditor interno y externo,

(viii) El sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(ix) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(x) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(xi) Durante el ejercicio no hubo modificaciones a políticas contables relevantes

(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

compensation to be paid for their services.

(iv) To approve the financial statements and press releases for the year ended December 31, 2013 and the 1st, 2nd and 3rd quarters of 2014, presented to the Board of Directors,

(v) To approve the audit plans for the years 2014 and 2015,

(vi) To approve the committee´s work plan and calendar for 2014,

(vii) To approve the reports presented by the internal and external auditors,

(viii) The internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(ix) The recommendations made by internal audit where implemented,

(x) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(xi) There were no relevant accounting policies modified during the year,

(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 2014 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 2014 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.

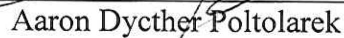
En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

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 Dycther Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

25 de febrero de 2014

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 2013.

Durante el ejercicio social de referencia, el Comité sesionó en tres ocasiones, el 26 de abril de 2013, el 26 de julio de 2013 y el 25 de octubre de 2013. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2013 son:

(i) Aprobar el Estatuto del Comité,
(ii) Aprobar el nombramiento del C.P. Gerardo Higareda Rivero como auditor interno,
(iii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza, S.C. como auditor externo y al Sr. Miguel Ángel Andrade como el socio responsable de la auditoría, así como los honorarios profesionales por sus servicios,
(iv) Aprobar los estados financieros y reportes de prensa correspondientes al año terminado el 31 de Diciembre de 2012, y segundo y

February 25, 2014

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the 172 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, 2013.

During the fiscal year in question, the Committee met 3 times, on April 26, 2013, on July 26, 2013 and on October 25, 2013. The main resolutions adopted by the Committee in the meetings held in the year 2013 are:

(i) To approve the Statute of the Committee,
(ii) To approve the appointment of Mr. Gerardo Higareda Rivero as internal auditor,
(iii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Miguel Angel Andrade as the partner in charge, as well as the general terms of the compensation to be paid for their services,
(iv) To approve the financial statements and press releases for the year ended December 31, 2012 and the

tercer trimestre de 2013, presentados al Consejo de Administración,

(v) Aprobar el informe anual presentado a la CNBV y a la BMV presentado al Consejo de Administración,

(vi) Aprobar los planes de auditoría para los años 2013 y 2014,

(vii) Aprobar el plan de trabajo y calendario del Comité para 2013,

(viii) Aprobar los reportes presentados por el auditor interno y externo,

(ix) El sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(x) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(xi) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(xii) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,

(xiii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial.

2nd and 3rd quarters of 2013, submitted to the Board of Directors,

(v) To approve the annual report submitted to the CNBV and BMV submitted to the Board of Directors,

(vi) To approve the audit plans for the years 2013 and 2014,

(vii) To approve the Committee´s work plan and calendar for 2013,

(viii) To approve the reports submitted by the internal and external auditors,

(ix) The internal controls and internal audit department of the entity and its subsidiaries, operate adequately,

(x) The recommendations made by Internal Audit were implemented,

(xi) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(xii) There were no relevant accounting policies modified during the year,

(xiii) There were no relevant denounces received from the Ethics Committee that required special attention.

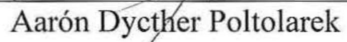
En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoría en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

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,



Aarón Dycther Poltolarek

Presidente del Comité de Auditoría
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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Consolidated Statements of Income and Other Comprehensive Income	4
Consolidated Statements of Changes in Members' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 489, piso 6
Colonia Cuauhtémoc
06500 Ciudad de México
México

Tel: +52 (55) 5080 6000
Fax: +52 (55) 5080 6001
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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.

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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.

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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

	2015	2014
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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Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report Dated February 27, 2015

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2014 and 2013

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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, 2014 and 2013, 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.

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Deloitte.

Opinion

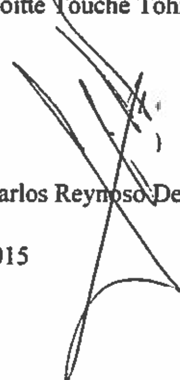
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gasoductos de Chihuahua, S. de R. L. de C. V. and subsidiaries as of December 31, 2014 and 2013, and and the results of their operations and their cash flows for the years then ended in accordance with Mexican Financial Reporting Standards.

Other Matters

The Entity changed its cash flows statement presentation from the direct method to the indirect method in 2014. The effects of this change were presented retrospectively in accordance with NIF B-1, *Accounting Changes and Error Corrections.*

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 27, 2015

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2014 and 2013
(In Mexican pesos)

Assets

	2014	2013
Current assets:		
Cash and cash equivalents	$ 1,962,141,885	$ 1,460,307,218
Account receivable	18,554,496	59,099,892
Due from PEMEX-Gas y Petroquímica Básica - related party	233,917,511	222,621,208
Recoverable taxes, mainly value added tax	1,217,544,671	350,469,115
Other accounts receivable and advance payments	36,916,540	27,887,047
Total current assets	3,469,075,103	2,120,384,480
Pipeline, land right-of-way, equipment and construction in progress - Net	15,033,740,065	6,919,804,812
Investment in joint-venture	2,118,133,680	-
Other assets	2,964,346	3,235,329
Tag Norte Holding, S. de R. L. de C. V. – associated entity	1,285,174,551	-
Total	$ 21,909,087,745	$ 9,043,424,621

Liabilities and members' equity

	2014	2013
Current liabilities:		
Current portion of long-term debt	$ 475,178,739	$ -
Account payable	423,242,917	232,909,448
Direct benefits to employees	15,611,628	12,750,079
Taxes payable and other accounts payable	8,522,367	5,202,368
Total current liabilities	922,555,651	250,861,895
Long term liabilities:		
Long-term debt	6,574,421,494	-
Derivative financial instruments	247,921,136	-
Loan from related parties	3,649,916,735	-
Asset retirement obligations	36,675,558	30,418,667
Deferred income taxes	946,996,396	650,750,498
Employee benefits	12,993,453	8,028,981
Total liabilities	12,391,480,423	940,060,041
Members' equity:		
Social parts	1,123,312,887	1,123,312,887
Retained earnings	6,948,264,576	6,499,867,366
Valuation of derivative financial instruments	(291,199,595)	-
Cumulative translation adjustment	1,737,229,454	480,184,327
Total members' equity	9,517,607,322	8,103,364,580
Total	$ 21,909,087,745	$ 9,043,424,621

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, 2014 and 2013
(In Mexican pesos)

	2014	2013
Revenues from transportation service	$ 1,915,595,003	$ 1,814,922,995
Revenues from storage service	211,703,494	14,940,687
Revenues from administrative services	-	42,627,039
Other income	43,910,121	85,276,121
Cost of transportation service	569,125,649	554,746,421
Cost of storage service	104,608,181	3,568,290
Cost of administrative services	-	40,841,777
Other costs	21,953,945	15,222,684
Gross profit	1,475,520,843	1,343,387,670
Administrative expenses	211,284,170	151,246,679
Operating income	1,264,236,673	1,192,140,991
Comprehensive financing loss:		
Interest expense, net	(192,398,405)	(5,369,763)
Allowance for funds used during construction	257,120,160	182,267,342
Foreign exchange loss, net	(194,845,708)	(7,034,175)
	(130,123,953)	169,863,404
Equity in loss in joint-venture	(76,936,825)	-
Income before income taxes	1,057,175,895	1,362,004,395
Income taxes	608,778,685	410,119,709
Consolidated net income	$ 448,397,210	$ 951,884,686
Other comprehensive income:		
Valuation of financial instruments	$ (291,199,595)	$ 2,581,314
Cumulative translation adjustment	1,257,045,127	87,633,674
Consolidated comprehensive income	$ 1,414,242,742	$ 1,042,099,674

See accompanying notes to consolidated financial statements.

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Statements of Changes in Members' Equity

For the years ended December 31, 2014 and 2013
(In Mexican pesos)

	Social parts					
	History	Restatement	Retained earnings	Valuation of financial instrument	Cumulative translation adjustment	Total members' History
Balance, January 1, 2013	$ 786,098,642	$ 337,214,245	$ 5,547,982,680	$ (2,581,314)	$ 392,550,653	$ 7,061,264,906
Consolidated net comprehensive income:						
Valuation of financial instruments	-	-	-	2,581,314	-	2,581,314
Consolidated net income	-	-	951,884,686	-	-	951,884,686
Currency translation adjustment	-	-	-	-	87,633,674	87,633,674
Consolidated net comprehensive income	-	-	951,884,686	2,581,314	87,633,674	1,042,099,674
Balance, December 31, 2013	786,098,642	337,214,245	6,499,867,366	-	480,184,327	8,103,364,580
Consolidated net comprehensive income:						
Valuation of financial instruments	-	-	-	(291,199,595)	-	(291,199,595)
Consolidated net income	-	-	448,397,210	-	-	448,397,210
Currency translation adjustment	-	-	-	-	1,257,045,127	1,257,045,127
Consolidated net comprehensive income	-	-	448,397,210	(291,199,595)	1,257,045,127	1,414,242,742
Balance, December 31, 2014	$ 786,098,642	$ 337,214,245	$ 6,948,264,576	$ (291,199,595)	$ 1,737,229,454	$ 9,517,607,322

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, 2014 and 2013
(In Mexican pesos)

	2014	2013
Cash flow from operating activities:		
Income before taxes	$ 1,057,175,895	$ 1,362,004,395
Effects from changes in the value of cash and cash equivalents due to adjustments to their fair values		
Items related to investing activities:		
Depreciation	269,559,314	213,336,910
Allowance for funds used during construction	(257,120,160)	(182,267,342)
Financial contracting cost amortization	13,776,129	-
Interest income	(1,885,917)	(1,717,172)
Equity income in joint-venture	76,936,825	-
Asset retirement obligations	2,163,706	1,943,323
Items related to financing activities:		
Interest expense	185,450,370	6,327,460
Net cash flows provided by operating activities	1,346,056,162	1,399,627,574
(Increase) decrease in:		
Accounts receivable	43,322,480	(43,399,769)
PEMEX-Gas y Petroquímica Básica - related party	15,272,360	(2,479,940)
TAG Pipelines - related party	-	13,504,514
Recoverable taxes, mainly value added tax	(741,846,035)	(208,907,034)
Taxes payable and other accounts payable	(16,648,192)	7,818,754
Other assets	10,054,320	(10,123,377)
Increase (decrease) in:		
Account payable	145,006,280	124,425,117
Direct benefits to employees	6,533,286	(1,759,393)
Labor obligation	3,558,739	831,729
Income taxes	(278,905,886)	(290,126,739)
Net cash flows provided by operating activities	532,403,514	989,411,436
Investing activities:		
Additions to pipeline, land right-of-way, equipment and construction in progress	(6,608,436,737)	(2,277,278,892)
Purchase of pipeline, land right-of-way and equipment	59,205,371	33,527,185
Capital contribution in joint-venture	(2,056,272,465)	-
Loans to join-venture	(1,276,305,955)	-
Net cash used in investing activities	(9,881,809,786)	(2,243,751,707)
Excess cash to be applied to financing activities	(9,349,406,272)	(1,254,340,271)
Financing activities:		
Loan received	7,022,156,803	-
Loan paid	(493,932,190)	(250,401,802)
Loan received from related parties	3,332,073,420	-
Interest paid	(123,571,782)	(3,936,236)
Financial contracting cost	(203,105,555)	-
Cash flow hedge	(133,571,886)	(1,185,820)
Net cash provided by (used in) financing activities	9,400,048,810	(255,523,858)
Net increase (decrease) in cash and cash equivalents	50,642,538	(1,509,864,129)
Effects from changes in value of cash	451,192,129	26,081,689
Cash and cash equivalents at beginning of the year	1,460,307,218	2,944,089,658
Cash and cash equivalents at end of the year	$ 1,962,141,885	$ 1,460,307,218

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(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-Gas y Petroquímica Básica ("PGPB"), a decentralized public agency which, in turn, is a subsidiary of Petróleos Mexicanos. The remaining 50% of the equity is own by Sempra Gasoductos Holding, S. de R.L. de C.V., a wholly-owned subsidiary of Sempra Gasoductos México, S. de R.L. de C.V. (both incorporated Mexican societies).

Gasoductos de Chihuahua and its subsidiaries (the Entity) receives approximately 92% of its income with its related party PEMEX-Gas y Petroquímica Básica (PGPB) for the years ended December 31, 2014 and 2013; 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.

Gasoductos de Chihuahua and its subsidiary, Gasoductos de Tamaulipas, S. de R. L. de C.V. ("Gasoductos de Tamaulipas") are engaged in providing natural gas transport services. Gasoductos de Chihuahua is also engaged in the transport of liquid petroleum gas through its subsidiary, TDF, S. de R.L. de C.V. ("TDF"). Transportadora del Norte SH, S. de R. L. de C. V. ("TDN") is the holding company of TDF and its activities are operating a storage plant in Zapotlanejo, Guadalajara for the supply of Liquid Petroleum Gas. These activities are regulated by the Comisión Reguladora de Energía (CRE).

The Entity through its subsidiary Gasoductos del Sureste, S. de R.L. de C.V. will engage in the ethane gas transportation service.

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, 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.

During 2013, TDF recovered insurance claims related to the incident mentioned above for an amount of $48,597,567 Mexican pesos, derived from an explosion and fire occurred in September 18, 2012 at the Centro Receptor de Gas y Condesados property of Pemex Exploración y Producción, which caused damages to a pumping station, which is part of the LPG 12" Burgos – Monterrey transportation pipeline (property of TDF,). The operation part was recorded in "other income" line in the interim condensed consolidated statements of income and other comprehensive income.

Gasoductos del Sureste is currently in the construction development of pipeline transport system of ethane gas which will be composed of the following segments: Segment I Nuevo Pemex - Cactus, Cactus- Segment II Cactus – Complejo Etileno XXI and Segment III Complejo Etileno XXI- Anillo Etano in Coatzacoalcos area

Significant events - On February 26, 2013, Gasoductos del Noreste, S. de R. L. de C. V. (Gasoductos del Noreste) was established as a 99.99% subsidiary of Gasoductos de Chihuahua, this entity is currently engaged in the construction of a new transport system of natural gas, which will be integrated by two phases. Upon completion of the 1st phase, the system will have a capacity of 1,000 MMcd. During the 2nd phase, two turbocompressors will be added thereby increasing capacity to 2,100 MMcd.

On December 1, 2014, Gasoductos del Noreste commenced operations in its first phase. Its current activities are focused in the natural gas transportation, maintenance and acquiring the operating assets needed to the transportation service.

On December 4, 2013, TDN commenced operations, which are comprised mainly of the operation and maintenance of a storage terminal in Zapotlanejo Guadalajara for the supply of Liquid Petroleum GAS (LPG) including the acquisition of operating assets necessary to carry out the LP gas storage services.

On December 2, 2013, Gasoductos Servicios Sub-Holding, S, de R.L. de C.V., was incorporated and it is a 99.99% subsidiary of Gasoductos de Chihuahua.

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.

On October 27, 2013, Petroleos Mexicanos (PEMEX) informed to the public the award of the project Los Ramones Fase II ("Ramones Fase II") which will divide such system into two parts (north and south). The north part, which includes 60% of the project, will be constructed and operated by the affiliated party Tag Pipelines in association with Gasoductos de Chihuahua.

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.. 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.

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.

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 financial statements*** - The consolidated financial statements and notes as of December 31, 2014 and 2013 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, 2014 and 2013 and for the years then ended, shareholding percentage in their capital stock is shown below:

Entity	Ownership Percentage 2014	Ownership Percentage 2013	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 (1) (GSH)	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 (2) (TDN)	99.99%	99.99%	Liquid petroleum Gas storage and holding Entity of TDF engaged in the transportation of liquid gas Burgos-Monterrey.

Entity	Ownership Percentage 2014	Ownership Percentage 2013	Activity
Ductos y Energéticos del Sureste, S. de R. L. de C. V. and subsidiary (3) (DES)	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.
Ductos y Energéticos del Norte, S. de R. L. de C. V. and joint-venture (4) (DEN)	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 associates and 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 other comprehensive income (loss) 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 cumulative translation adjustments of foreign operations. 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:

a. *Accounting changes:*

As of January 1, 2014, the Entity adopted the following new NIFs:

NIF B-12 Offsetting of Financial Assets and Financial Liabilities
NIF C-11, Stockholders' Equity
Improvements to Financial Reporting Standards 2014

Some of the principal changes established in these standards are:

NIF B-12, Offsetting of Financial Assets and Financial Liabilities- Establishes that the offsetting of financial assets and liabilities in the statement of financial position is appropriate when: a) there is a legal right and obligation to collect or pay an offset amount, and b) the amount resulting from offsetting the financial assets of the financial liability reflects the expected cash flows of the Entity when it liquidates two or more financial instruments.

NIF C-11, Stockholders' Equity- Establishes the standards for presentation and disclosure and indicates that advances for future capital increases are presented in stockholders' equity, only when: i) there is resolution issued by a meeting of partners or owners, where they stipulated that the amounts paid will be applied to capital increases in the future; ii) a fix number of shares set to be issued by such advances, iii) the price per share to be issued for such advances is fixed and iv) it amounts cannot be reimbursed before they are capitalized.

NIF C-14, Transfer and Cancellation of Financial Assets- Establishes the standards related to the accounting recognition of transfers and cancellations of financial assets different from cash and cash equivalents, such as receivables or negotiable financial instruments, as well as the presentation in the financial statements of such transfers and the related disclosures. In order for a transfer to also qualify as a cancellation, there should be a full assignment of the risks and benefits inherent to the financial asset.

The transferor of the financial asset will eliminate it from its statement of financial position at the time that it no longer has rights or is exposed to the future profit or loss, respectively, therefrom. Conversely, the recipient will assume the risks inherent to such financial asset acquired and will have an additional return if the cash flows originated thereby exceed those originally estimated, or a loss if the cash flows received were lower.

Improvements to NIF 2014 –The following improvements that result in accounting changes were issued:

NIF C-5, Prepaid Expenses– Establishes that amounts paid in foreign currency should be recognized at the exchange rate in effect on the transaction date, and should not be modified for subsequent changes in exchange rates.

NIF C-5, Prepaid Expenses and NIF C-15, Impairment in the Value of Long-lived Assets and their Disposal– Establish that losses from impairment, as well as their reversals, should be presented as part of net income or loss for the period in the heading considered suitable according to professional judgment. Under no circumstances shall losses from impairment be presented as part of the costs that are capitalized in the value of an asset.

NIF C-15, Impairment in the Value of Long-lived Assets and their Disposal– Establishes that, in the case of long-lived assets held for sale, an extension of the period to complete the sale beyond one year does not preclude held for sale classification. Furthermore, the assets and liabilities associated with a discontinued operation should generally be presented on the balance sheet grouped into single headings of current assets and liabilities. The balance sheets of previous periods shall not be restated due to this reclassification.

NIF B-3, Statement of Comprehensive Income, NIF B-16, Financial Statements of Nonprofit Entities, NIF C-6, Property, Plant and Equipment, NIF C-8, Intangible Assets, Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments, and NIF D-3, Employee Benefits– Establish that the presentation of the headings other income and other expense is not required in the statement of comprehensive income, for which reason the references to such headings are eliminated in these NIFs.

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.

b. ***Reclassifications*** - Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2013 have been reclassified to conform to the presentation of the 2014 consolidated financial statements.

c. ***Recognition of the effects of inflation*** – Cumulative inflation rates over the three-year periods ended December 31, 2014 and 2013 were 12.08% and 11.80%, 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, 2014 and 2013 were 4.08% and 3.97%, respectively.

   Beginning on January 1, 2008, the Entity discontinued recognition of the effects of inflation in their consolidated financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

d. ***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.

e. ***Investment in shares of joint-venture*** - Equity investments in the entity in which the Entity has significant influence, are initially recognized at cost and subsequently valued using the equity method.

f. *Operation regulated* - As mentioned in Note 1, the activity of the Entity 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.

g. *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, 2014 and 2013, GDN capitalized $257,120,160 and $168,237,345, respectively, and TDN capitalized $14,029,997 during 2013 for this concept.

Additionally, the Entity capitalizes borrowing costs on financial assets under construction in which resources are used; the capitalized cost as of December 31, 2014 amounted to $121,534,528.

h. *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.

i. *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 5.0
Structures, compression and pumping station	3.3 to 5.0
Allowance for funds used during construction	3.3 to 5.0
Measuring and control equipment	6.7
Computer equipment	25.0 to 30.0
Office furniture and equipment	10.0
Transportation equipment	25.0
Leasehold improvements	11.0

In accordance with NIF B-15, non-monetary assets reflect the amount of historical pesos at the exchange rate as of December 31, 2014 and 2013, respectively.

j. ***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 2014 and 2013, the Entity did not record impairment effects.

k. ***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, 2014, 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.

l. ***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 done 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.

m. ***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, 2014, and 2013, the value of the provision for removal of pipelines and other equipment amounting $36,675,558 and $30,418,667, 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.

n. ***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, 2013, PTU is determined based on taxable income, according to Section I of Article 10 of the Income Tax Law.

o. ***Income taxes*** - Income tax ("ISR") and business flat tax (IETU) are recorded in results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections, the Entity determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. 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.

As a result of the *2014 Tax Reform*, as of December 31, 2013, deferred IETU is no longer recognized.

p. ***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 (loss) statements.

q. ***Revenue recognition*** - Revenue is recognized in the month in which the gas transportation and storage service is provided.

Revenues from administrative services 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.

r. ***Cost of transportation and storage services recognition*** - These are recognized in the month in which the transportation and storage service is received.

The costs of administrative services are recognized in the month in which the service is provided.

4. Cash and cash equivalents

	2014	2013
Cash	$ 1,104,095,204	$ 1,292,864,771
Cash equivalents– Investment funds	858,046,681	167,442,447
Total	$ 1,962,141,885	$ 1,460,307,218

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

	December 31, 2014	December 31, 2013	Balances at the beginning of 2013
a) Investment:			
Structures and compression station	$ 3,708,687,473	$ 3,255,511,725	$ 3,236,985,788
Pipeline and land right-of-way	6,773,528,333	1,841,386,348	1,527,775,280
Storage terminal	920,591,394	778,558,595	-
Allowance for funds used during construction	1,166,981,837	783,290,064	597,529,473
Asset retirement provision	29,938,212	26,568,870	26,433,959
Measurement and regulation equipment	9,234,534	8,195,251	9,570,971
Transportation equipment	15,792,485	10,762,822	6,722,715
Office furniture and equipment	16,803,837	16,653,784	11,345,822
Computer equipment	10,877,620	7,600,155	6,370,890
Communication equipment	2,652,529	2,339,538	1,796,980
Leasehold improvements	11,539,405	12,442,368	8,376,312
	12,666,627,659	6,743,309,520	5,432,908,190

	December 31, 2014	December 31, 2013	Balances at the beginning of 2013
b) Accumulated depreciation and amortization:			
Structures and compression station	1,359,898,466	1,083,414,760	959,053,975
Pipeline and land right-of-way	685,218,876	521,805,035	457,467,433
Storage terminal	39,074,197	-	-
Allowance for funds used during construction	214,514,047	163,105,224	140,871,295
Asset retirement provision	5,069,408	2,999,265	1,515,045
Measurement and regulation equipment	5,957,329	4,868,956	4,400,042
Transportation equipment	5,711,885	4,368,009	2,845,569
Office furniture and equipment	5,512,669	3,988,764	2,666,225
Computer equipment	7,561,550	4,564,274	4,390,166
Communication equipment	798,866	472,990	257,535
Leasehold improvements	2,946,261	3,152,535	1,976,748
	2,332,263,554	1,792,739,812	1,575,444,033
Construcciones en proceso	4,440,183,949	1,765,399,322	640,203,232
Terrenos instalación de entrega	79,926,151	63,696,971	35,954,062
Inventario de gas en línea	103,697,054	69,738,308	63,228,425
Refacciones	75,568,806	70,400,503	65,351,373
	4,699,375,960	1,969,235,104	804,737,092
Total	$ 15,033,740,065	$ 6,919,804,812	$ 4,662,201,249

Depreciation in 2014 and 2013 that was recognized in results was $322,697,774 and $228,142,418, respectively.

6. Investment in joint-venture

As of December 31, 2014 the investment in joint-venture are as follow:

2014	Stockholders' equity	Carrying amount of participation	% Ownership Percentage	Net loss	Share in results
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 assessed according to the equity method in the accompanying consolidated financial statements.

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.

The participation amounts to $199,399,890, net of the effect of $122,463,065 in the comprehensive loss effects.

7. Long term debt and derivative financial instruments

a. As of December 31, 2014, the amount of the long term debt is as follow:

	2014
Current portion of long-term debt with BBVA Bancomer, S.A. (1)	$ 472,087,982
Current portion of long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	3,090,757
Current portion of long-term debt	$ 475,178,739
Long term-debt BBVA Bancomer, S.A.(1)	$ 5,808,834,040
Long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	765,587,454
Long term-debt	$ 6,574,421,494

(1) Loan with Bancomer, S.A.

As of December 31, 2014, the credit amounts to 439,412,130 U.S. dollars equivalent to $6,474,649,854 in Mexican pesos, net of financial cost expenses of 13,147,639 U.S. dollars, equivalent to $193,727,832, in Mexican pesos.

On December 5, 2013 Gasoductos de Chihuahua, S. de R.L. de C.V., the holding entity, signed a credit contract with BBVA Bancomer, S.A. as principal 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 have 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 Tokio 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, 2014 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, 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, 2014 was $6,468,208,668 Mexican pesos equivalent to 438,974,989 U.S. dollars, 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, 2014, the fair value of the financial instrument was $247,921,136 Mexican pesos equivalent $16,825,551 U.S. dollars. 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, 2014 was $168,736,530 Mexican pesos equivalent $11,451,566 U.S. dollars.

The fair value of interest rate swaps is calculated by adding the present value of the corresponding periodic cash flows.

(2) **Loan with Banco Nacional del Comercio Exterior, S.N.C.**

As of December 31 2014, the credit amount $53,323,580 U.S. dollars equivalent $785,712,281 Mexican pesos net of financial cost expenses of $1,253,439, equivalent $17,034,070 in Mexican pesos.

The long term debt with Banco Nacional del 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 of $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, 2014, excluding the amount of interest which is paid quarterly.

b. As of December 31, 2014, the long term debt maturity is as shown below:

2016	$ 518,949,306
2017	567,507,677
2018	594,831,542
2019	559,867,065
Later years	4,333,265,904
	$ 6,574,421,494

8. Employee benefits

Net period cost for obligations resulting from the pension plan and seniority premiums was $6,474,473 and $3,586,693 in 2014 and 2013, respectively.

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.

a. Present value of these obligations and the rates used for the calculations are:

	2014	2013
Vested benefit obligation	$ 1,116,977	$ 6,466,524
Nonvested benefit obligation	13,332,249	1,022,844
Defined benefit obligation	14,449,226	7,489,368
Funded status – (underfunded)	197,645	540,812
Unrecognized items:		
Actuarial gains and losses	(1,653,418)	(1,199)
Net projected liability	$ 12,993,453	$ 8,028,981

b. Nominal rates used in actuarial calculations are as follows:

	2014	2013
Discount of the projected benefit obligation at present value	7.25%	6.50%
Salary increase	4.50%	4.50%

Unrecognized items are charged to results based on the average remaining service lives of employees, which is 16.84 years.

c. Net cost for the period includes the following items:

	2014	2013
Service cost	$ 2,310,370	$ 4,095,002
Interest cost	431,155	447,901
Actuarial gains and losses	-	40,209
Income (cost) for immediate recognition	-	(655,358)
Effect of personnel reduction or early termination	3,732,948	(340,791)
Net cost for the period	$ 6,474,473	$ 3,586,963

9. Asset retirement obligation

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, 2014 and 2013, Gasoductos de Chihuahua recorded the provisions for asset retirement obligations based on the Mexican Official Standard NOM-117, as shown below:

	2014	2013
Ducto Samalayuca	$ 4,299,141	$ 3,565,703
Estación de compresión Gloria a Dios ("GAD")	5,107,374	4,236,051
Sistema San Fernando	19,971,889	16,564,664
Gas LP Burgos Monterrey	7,297,154	6,052,249
Total	$ 36,675,558	$ 30,418,667

The estimated costs of these obligations have been recorded at present value of future cash flows based on the effective interest method using an appropriate discount rate, a risk-free rate of credit institution. This rate corresponds to 7% for Grupo Gasoductos. The estimated remaining life of the projects are as follows: Pipeline Samalayuca 16 years; compressor station GAD 11 years, San Fernando System 22 years and LP gas Burgos Monterrey 17 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, 2014 and 2013, 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
PGPB	$ 20,912,428	$ 372,136,893	$ 393,049,321
Sempra 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, 2014 and December 31, 2013, 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, 2014, and 2013 are:

	2014	2013
Contributed capital account	$ 1,484,414,978	$ 1,426,224,998
Net tax income account (CUFIN)	4,841,249,129	4,580,981,622
Total	$ 6,325,664,107	$ 6,007,206,620

11. Foreign currency balances and transactions

a. As of December 31, 2014, and 2013, the foreign currency monetary position is as follows:

	2014	2013
U.S. dollars:		
Monetary assets	184,477,556	109,519,421
Monetary liabilities	(742,527,935)	(1,984,638)
Net monetary (liability) asset position	(558,050,379)	107,534,783
Equivalent in Mexican pesos	$ (8,222,760,736)	$ 1,406,178,590

b. Transactions denominated in foreign currency were as follows:

	(In U.S. dollars) 2014	2013
Transportation revenues	128,005,618	130,604,173
Services rendered	16,501,760	18,486,471
Interest expenses	14,587,632	588,316
Allowance for funds used during construction	19,298,438	13,972,467
Interest income	124,139	4,077
Other income	2,449,642	1,914,163

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, 2014	December 31, 2013	February 27, 2015
U.S. dollar	14.7348	13.0765	14.9624

12. Transactions with related parties

a. Transactions with related parties performed in the normal course of business were as follows:

	2014	2013
Revenues from natural gas transportation (PGPB)	$ 1,772,678,907	1,674,762,545
Revenues from storage service (PGPB)	211,703,494	14,940,687
Revenue administrative service (TAG Pipelines)	-	42,627,039
Income from recovery of expenses (PGPB)	4,215,145	3,912,570
Services received from operation and maintenance	196,740,613	146,671,635
Interest payable Infraestructura Energética Nova (2)	25,278,701	-
Interest payable Tag Pipelines (3)	20,844,403	-
Interest payable Mex Gas Supply (4)	4,434,298	-
Interest gain Tag Norte Holding (1)	8,868,596	-

b. 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.

c. 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).

d. 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.

e. 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.

f. On December 15, 2005, TDF entered into an agreement with PGPB, in which it receives O&M services. This agreement expires in 20 years from the commercial operational date.

g. On September 23, 2011, Gasoductos Servicios Corporativos y de Administración, S. de R.L. de C.V. (GSCA) celebrated service agreement betwen MGI Supply, Ltd (MGI). Profit margin on costs of services billed will be 5%. This contract is valid for one year from the signing of the agreement; MGI has the option to extend for a period equal by giving written notice sixty days prior to GSCA.

h. On April 18, 2012, GSCA celebrated a modification agreement. MGI agreed to transfer all rights and obligations under the service contract to TAG Pipelines, S. de R.L. de C.V.

i. On August 6, 2013, the Entity held a termination agreement of services between TAG Pipelines, S. de R.L. de C.V. and Gasoductos Corporativos y de Administración, S. de R.L. de C.V. leaving extinct all rights and obligations between them, taking effect on July 31, 2013.

j. On February 21, 2012, TDN entered into an agreement with PGPB, in which it receives O&M services. This agreement expires in 20 years from the commercial operational date.

k. On December 13, 2012, GDS entered into an agreement with PGPB, in which it provides ethane gas transportation services. This agreement expires in 21 years from the commercial operational date of the first segment.

l. 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.

m. 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.

n. On December 19, 2013, Gasoductos de Chihuahua 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.

o. On December 19, 2013, Gasoductos de Chihuahua 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.

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-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.

As of December 31, 2014, the loans balance are as follow:

a. Loans to affiliated parties:

	2014
Tag Norte Holding, S. de R.L. de C.V. (subsidiary) (1)	$ 1,285,174,551

b. Loans from affiliated parties:

	2014
Infraestructura Energética Nova, S.A.B. de C.V. (2)	$ 1,824,958,368
Tag Pipelines, S. de R.L. de C.V. (3)	1,182,371,092
Mex Gas Supply, S.L. (4)	642,587,275
Total loans from affiliated parties	$ 3,649,916,735

(1) Loan to related party for $86,618,478 U,S, dollars, equivalent to $1,276,305,955 Mexican pesos. Accrues at monthly LIBOR interest plus 465 basis points documented on two notes of $43,309,239 each with long-term maturity. As of December 31, 2014, interest amounting to $601,880 U.S. dollars equivalent $8,868,596 Mexican pesos.

(2) Loans from related party for $43,309,239, $39,183,470, $31,856,346 and $7,690,761 U.S. dollars. The total loan amount is $1,798,232,281 Mexican pesos. These loans accrue at a monthly LIBOR interest plus 450 basis points, documented in four long term maturity promissory notes. As of December 31, 2014, interest amounting to $1,813,807 U.S. dollars, equivalent to $26,726,087 Mexican pesos.

(3) Loans from related party for $39,183,470, $31,856,346 and $7,690,761 U.S. dollars. The total loan amount is $1,160,079,306 Mexican pesos. This loans accrues at a monthly LIBOR interest plus 450 basis points, documented in three long term maturity promissory notes. As of December 31, 2014, interest amounting to $1,512,867 U.S. dollars equivalent to $ 22,291,786 Mexican pesos.

(4) Loan from related party for $43,309,239 U.S. dollars equivalent $638,152,975 Mexican pesos. This loans accrues at a monthly LIBOR interest plus 450 basis points, documented in a long term maturity promissory note. As of December 31, 2014, interest amounting to $300,941 U.S. dollars, equivalent $4,434,300 Mexican pesos.

13. Other income

	December 31, 2014	December 31, 2013
Income for compression increasing	$ 7,044,652	$ -
Cash out	12,790,921	6,190,135
Reimbursement of PGPB expenses	4,215,145	3,912,570
Insurance recovery	13,114,730	63,703,915
Tax actualization	5,265,154	3,376,408
Other income	1,479,519	8,093,093
	$ 43,910,121	$ 85,276,121

14. Other costs

	December 31, 2014	December 31, 2013
Cost of sales of fixed assets	$ 19,839,110	$ 15,056,727
Others	2,114,835	165,957
	$ 21,953,945	$ 15,222,684

15. Income taxes

The Entity is subject to income tax, and was subject to a flat tax through December 31, 2013.

ISR -The rate was 30% in 2014 and 2013 and as a result of the new 2014 ISR law (2014Tax Law), the rate will continue at 30% in 2014 and thereafter.

The Mexican Board for Research and Development of Financial Regulations ("CINIF") issued INIF 20 Financial Effects of the Tax Reform 2014, effective as of December 31, 2013, to provide guidance regarding the accounting recognition of the issues included in the 2014 tax reform.

IETU – IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The rate was 17.5%.

As of 2008, the Asset Tax Law (IMPAC) was eliminated, but under certain the amount of this tax paid in the 10 years immediately prior to that in which ISR is first paid may be recovered in accordance with applicable tax provisions.

Income tax is calculated caused based on ISR

Income taxes and the reconciliation of the statutory and effective ISR rates, expressed in amounts and as a percentage of income before income taxes, are:

	2014		2013	
	ISR Caused	Rate %	ISR Caused	Rate %
Income before income taxes	$ 1,057,175,895		$ 1,362,004,395	
Income tax	240,217,131		296,994,538	
Income tax deferred	368,561,554		113,125,171	
Current tax	608,778,685	58%	410,119,709	30%
Deferred tax	(27,179,255)	(3)%	(14,333,012)	(1)%
Total income taxes	107,284,653	10%	12,325,914	1%
Effects of inflation	(369,026,798)	(35)%	(23,089,539)	(2)%
Financial instrument	(2,060,685)	-%	-	-%
Non-taxable income	(643,831)	-%	23,578,247	2%
	$ 317,152,769	30%	$ 408,601,319	30%

a. The components of deferred income tax assets and liabilities were as follows:

	2014	2013
Provisions	$ (16,682,575)	$ (10,855,014)
Liabilities for Statutory employee profit sharing ("PTU")	(890,852)	(532,688)
Pipelines, land right-of-way, equipment and construction in progress, net	1,498,256,579	769,561,412
Insurance	2,641,259	5,084,782
CSE Provision	(30,761,701)	(27,390,497)
Operation and maintaince	(1,145,103)	(2,598,908)
Tax loss carryforwards	(483,794,161)	(82,518,589)
Financial contracting cost	51,688,606	-
Derivative financial instrument	(72,315,656)	-
	$ 946,996,396	$ 650,750,498

b. ***Carryforwards*** – As of December 31, 2014, Gasoductos de Chihuahua 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
2021	$ 181,996
2022	39,820,925
2023	225,979,369
2024	1,346,664,912
	$ 1,612,647,202

16. Commitments

As of December 31, 2014, Gasoductos de Chihuahua 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; 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 right of renewal for five years. The maximum daily capacity covered by this contract is 60 million cubic feet (ft3) per day.

c. Gasoductos de Tamaulipas executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001 and stipulates a daily capacity of 1,000,000,000 $ft.^3$ 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 May 2, 2002, Gasoductos de Tamaulipas 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 20 years from the commercial operational date.

d. 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.

e. 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.

f. On October 28, 2011, Transportadora del Norte SH signed a contract with Cobra Instalaciones México, S. A. de C. V. ("Contractor") for the construction, engineering and procurement of the storage facility LPG supply at Zapotlanejo Guadalajara. As established in the amended agreement if the construction of this storage facility is not completed within 365 days after Notice to Proceed "NTP", the contractor is required to pay a penalty for Transportadora del Norte of US$10,000 for each day of delay in the first 60 days, US$30,000 for each day of delay of 61 to 120 days and US$50,000 from day 121 and thereafter.

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 rate that is regulated by the CRE.

h. On February 21, 2012, Transportadora del Norte, SH entered into an agreement with PGPB, from which it receives O&M services. This agreement expires 15 years from the commercial operational date.

i. 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.

j. On November 27, 2013, 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, Nuevo Pemex- Km 3 66,000 BPD, Segmento II Cactus- Km 3 38,000 BPD, Segmento II Km 3- Complejo Etileno XXI 95,500 BPD y Segmento III Cd. Pemex- Nuevo Pemex 105,600 BPD.

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.

The maximum amount of penalties, from the signing of the contract to the commercial operational date may not exceed 30,000,000 US dollars.

k. On December 21, 2012, Gasoductos del Sureste entered into an agreement with Techint, S. A. de C. V. (Contractor) for the construction, engineering and procurement of the ethane gas pipeline in the following segments: Segment I Nuevo Pemex – Cactus, Segment II Cactus – Complejo Etileno XXI and Segment III Complejo Etileno XXI – Anillo ethane Coatzacoalcos Area.

The contract establishes that if the pipeline is not concluded as of June 30, 2014, the Contractor is forced to pay to Gasoductos del Sureste a daily penalty as follows: Segment I $37,250 for the first 30 days; $40,000 from day 31 to day 60, $45,000 from day 61 to day 90, $50,000 from day 91 to day 120, $55,000 from day 121 to day 150, $65,000 from day 151 to day 180 and $70,000 from day 181. Segment II $41,250 for the first 30 days, $42,500 from day 31 to day 120, $52,500 from day 121 to day 150, $72,500 from day 151 to day 180 and $107,500 from day 181. Segment III $31,250 for the first 30 days, $32, 500 from day 31 to day 120, $42,500 from day 121 to day 150, $62,500 from day 151 to day 180 and $99,500 from day 181 onwards.

On December 18,2014, Gasoductos del Sureste, signed a modification agreement with Techint, S.A. de C.V. changing the operation date of Segment I to December 31, 2014, and Segment II to Jan. 31, 2015 and Segment III to March 31, 2015.

l. On July 19, 2013, Gasoductos del Noreste entered into an agreement to provide natural gas transportation services to PGPB. The agreement has a term of 25 years from the commercial operation date with a reserve capacity of 1,000 MMdpcp during the first stage and 2,100 during the second.

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.

On December 1, 2014, the Entity started operations in its first phase; its current activities are focused on the service of natural gas transportation, maintenance and acquire the operating assets required to carry out the transportation service.

m. On October 15, 2013, Gasoductos del Noreste entered into an agreement with Bonatti, S. P. A. (Contractor) for the construction, engineering and procurement of the Los Ramones phase I project.

This contract establishes that if the construction is not concluded by December 1, 2014, the contractor will pay to Gasoductos del Noreste a daily penalty as follows: from day 1 to day 30, $75,000, from day 31 to day 90 $150,000, and from day 91 and thereafter, $250,000.

n. 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.

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 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.

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-2 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.

q. As of December 19, 2013, 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 extents the maturity until December 31, 2014.

r. On December 31, 2013, 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 contract is for one year and includes a regulated rate.

s. On December 31, 2013, 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 contract includes a regulated rate and is valid for one year.

t. On December 31, 2013, the Entity entered into an agreement with Energía Chihuahua –, in order to sell natural gas molecule produced in excess in the GDC system.

17. Subsequent event

On January 20, 2015, the Entity through its subsidiary Gasoductos del Sureste, S. de R.L. de C.V. commenced operations in its first segment, its current activities are focused on transportation service of ethane pipeline and liquid ethane for the segment I, and the pipeline construction and acquisition of assets needed to carry out the transport service segments II and III.

As mentioned in the notes 16(k) and 16(l) the Entity is subject to collect and pay contractual penalties for the scheduled date of commercial operation infringements. At the date of issuance of the consolidated financial statements the Entity is in the process of negotiating contractual penalties.

18. New accounting principles

During 2013, the Mexican Board for the Investigation and Development of Financial Reporting Standards issued the following MFRS, which take effect from January 1, 2016, earlier application is allowed collectively from January 1, 2015:

NIF C-3 Accounts Receivable
NIF C-20 Receivables Financing Instruments

NIF C-3, Accounts Receivable. The main changes in this standard are as follows. Specifies that the accounts receivable are based on contract represent a financial instrument, while some of the other receivables generated by any legislative or tax may have certain features of a financial instrument, such as generating interests but are not themselves financial instruments.

Sets the estimate for uncollectible accounts receivable trade is recognized from the time the income is accrued based on expected credit losses, presenting the estimate by category of expenditure separately when significant, in the state of comprehensive income.

It provides that, upon initial recognition, be considered the value of money over time, so if the effect of the present value of the receivable is important in view of their term should be adjusted based on said present value.

NIF C-20, Financing instruments receivable. The main change in this standard with respect to previous pronouncements is the classification of financial instruments on the assets. The concept of intention acquisition and possession of them is discarded to determine their classification. Instead, the concept of business model management, either to obtain a contractual yield adopted, in order to create a contractual performance and sold to meet certain strategic objectives or to generate profits for their buying and selling, to classify them according to the corresponding model. This aligns the valuation of investments in financial instruments in the actual strategic management of business and not with an intention may be not be valid later.

If the business model is generate a profit through a contractual receivable instrument performance, predetermined on a contract it will logic that such case will recognize at amortized cost as indicated in this statement.

At the date of issuance of these consolidated financial statements, the Entity has not completed its analysis of the effects of adoption of these new provisions on their financial information.

19. Authorization to issue the financial statements

On February 27, 2015, the issuance of the accompanying consolidated financial statements was authorized by Ing. José Luis Vitagliano Novoa, Chief Executive Officer, and Ing. Antonio Hernández Benítez, Chief Financial Officer; 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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