Annual report pursuant to the Mexican Rules for Securities Issuers and for Other Securities Market Participants, for the year ended December 31, 2016.

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

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As of December 31, 2016, Infraestructura Energética Nova, S.A.B. de C.V. (the "Company") had 1,534,023,812 shares of a single series of stock outstanding, of which 5,000 were Class I registered shares of common stock, no par value, representing the fixed portion of the Company's capital and 1,534,018,812 were Class II registered shares of common stock, no par value, representing the variable portion of the Company's capital.

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

The Company has 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. The Company has 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 the Company's securities, solvency or the accuracy or completeness of the information contained in this report and such registration does not ratify or validate acts, if any, undertaken in contravention of applicable law.

Terms and conditions of the Notes:

"IENOVA 13"

Amount of Issue: Ps.3.9 billion.
Issue price: Ps.100.0 each.
Issuance date: February 14, 2013.
Maturity date: February 2, 2023.
Term of Issue: Up to 3,640 days, or approximately 10 years divided into 20, 182-day periods.
Interest; determination procedure: These Notes accrue interest at a fixed, annual gross rate of 6.30%, as determined based on the face value thereof.
Interest payment dates: Ordinary interest on the notes are due and payable every 182 days in accordance with the payment schedule.
Principal and interest payment place and method: The Company makes all payments of principal and interest under the Notes by electronic wire transfer through the facilities of S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., or Indeval, located at Paseo de la Reforma No. 255, Tercer Piso, Colonia Cuauhtémoc, Delegación. Cuauhtémoc, 06500 Ciudad de México, upon surrender of the relevant certificate or evidence of its deposit with Indeval. Indeval distributes the proceeds from each such payment to the accounts designated to such effect by its participants, for their subsequent distribution to the note holders.
Repayment of principal: The company will repay the principal amount of the Notes in a single installment on the Maturity Date.
Early full Repayment of Principal: The Company may prepay all (but not only a portion) of these Notes at any time beginning on the fifth anniversary of the Issue Date.
Collateral: The Notes are secured by all of the Company's assets as a whole, rather than by a specific item of collateral.
S&P rating of the issuance: "mxAAA", which is the highest issuer credit rating assigned by Standard & Poor's, S.A. de C.V. under its CaVal scale and is indicative of the issuer's very strong capacity to meet its financial commitments relative to other domestic issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Standard & Poor's, S.A. de C.V.
Moody's rating: "Aa1.mx", which is a strong rating relative to other Mexican issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Moody's de México, S.A. de C.V.
Joint Representative of the Note holders: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero.
Depositary: Indeval.
Taxation: Interest payments on the Notes are subject to Mexican income tax withholding at the rates specified in the following provisions: (i) in the case of individuals and entities who are Mexican residents for tax purposes, articles 18, 135 and other related provisions of the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*), as currently in effect; and (ii) in the case of individuals and entities who are non-Mexican residents for tax purposes, articles 153, 166 and other related provisions of the Mexican Income Tax Law, as currently in effect. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in the Company's Notes, including the specific rules applicable to them in light of their individual circumstances.
Negative Covenants: Until such time as the Notes have been repaid in full, the Company may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an acceleration event under the Notes. The terms of the Notes do not contain any negative covenant with respect to changes in the Company's control, or to the sale of the Company's indispensable assets or the creation of liens thereon.

“IENOVA 13-2”

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

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

Where:

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

Interest payment dates: Ordinary interest on the Notes are due and payable every 28 days.
Principal and interest payment place and method: The Company makes all payments of principal and interest under the Notes by electronic wire transfer through the facilities of Indeval, located at Paseo de la Reforma No. 255, Tercer Piso, Colonia Cuauhtémoc, Delegación Cuauhtémoc, 06500 Ciudad de México, upon surrender of the relevant certificate or evidence of its deposit with Indeval. Indeval distributes the proceeds from each such payment to the accounts designated to such effect by its participants, for their subsequent distribution to the note holders.
Repayments of principal: The Company will repay the principal amount of the Notes in a single installment on the Maturity Date.
Prepayment in full: The Company may prepay all (but not only a portion) of the Notes at any time beginning on the third anniversary of the Issue Date.
Collateral: The Notes are secured by all of the Company’s assets as a whole, rather than by a specific item of collateral.
S&P rating: “mxAAA”, which is the highest issuer credit rating assigned by Standard & Poor's, S.A. de C.V. under its CaVal scale and is indicative of the issuer’s very strong capacity to meet its financial commitments relative to other domestic issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Standard & Poor's, S.A. de C.V.
Moody's rating: “Aa1.mx”, which is a strong rating relative to other Mexican issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Moody’s de México, S.A. de C.V.
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Negative Covenants: Until such time as the Notes have been repaid in full, the Company may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes the Company’s obligations under the Notes and (ii) such merger or consolidation does not give rise to an acceleration event under the Notes. The terms of the Notes do not contain any negative covenant with respect to changes in the Company’s control, or to the sale of the Company’s indispensable assets or the creation of liens thereon.

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PRESENTATION OF INFORMATION

Financial Statements

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

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

This report includes the Company's audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014. The Company's audited consolidated financial statements have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere herein.

Market Estimates

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

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

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

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

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

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

Rounding

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

Other Information

Certain Mexican peso amounts contained in this report have been translated into U.S. Dollars. Unless otherwise indicated, the exchange rate used to translate such amounts was Ps.20.6640 to USD$1.00, which was the selling exchange rate in effect on December 30, 2016, as reported by Banco de México in the Mexican Official Gazette.

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

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

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

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

Description of The Company's Contracts and Permits

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

GLOSSARY OF TERMS AND DEFINITIONS

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

Term	Definition
"Acciona"	Acciona Energía, S.A.
"Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector"	The Mexican National Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector (*Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*).
"Aguaprieta pipeline"	The 20-inch diameter pipeline with an approximate length of 13 km and a capacity of 200 MMcfd (2.1 MMThd).
"Antitrust Commission" or "COFECE"	Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*).
"audited financial statements"	The Company's audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014, including the notes thereto.
"Banco Santander (México)" or "Santander"	Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México.
"Bancomext"	Banco Nacional de Comercio Exterior, S.N.C.
"Banking and Securities Commission"	Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*).
"Banobras"	Banco Nacional de Obras y Servicios Públicos, S.N.C.
"basis point"	One-hundredth of one percent (e.g., 30 basis points = 0.30%).
"Bbl"	Barrels.
"Bbld"	Barrels per day.
"BBVA Bancomer"	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
"Blackstone"	Blackstone Energy Partners.
"BlackRock"	BlackRock, an asset management entity.
"Bloomberg"	Bloomberg L.P.
"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.
"CEMEX"	CEMEX, S.A.B. de C.V. (and affiliates). CEMEX, has subscribed and maintains Ventika's management services contracts.

"Center for the Control of Energy"	The Mexican National Center for the Control of Energy (Centro Nacional de Control de Energía, or CENACE), a decentralized agency of the Mexican government that is responsible for the operative control of the national electric system, the wholesale electric market and not unduly discriminatory open access to the national transmission network and to general electricity distribution networks.
"Center for the Control of Natural Gas" or "CENAGAS"	The Mexican National Center for the Control of Natural Gas (*Centro Nacional de Control del Gas Natural, or CENAGAS*), a decentralized agency of the Mexican government that is responsible for managing the Mexican Natural Gas Integrated Transportation and Storage System (*Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural*) and for ensuring the ongoing, safe provision of services through such system, thus contributing to the ongoing supply of natural gas throughout Mexico. Effective January 1, 2016, Mexican law required that Pemex TRI assign to the Mexican Center for the Control of Natural Gas its compression services agreement with the Naco compression station and its transportation service agreements with the San Fernando, Los Ramones I and Los Ramones Norte pipelines.
"Company"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.
"Credit Suisse México"	Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México).
"DEACERO"	DEACERO, S.A.P.I. de C.V. (and affiliates)
"DEN"	Ductos y Energeticos del Norte, S. de R.L., the joint venture between the Company and Pemex TRI.
"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 gas distribution permits.
"Dollars" or "USD$"	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., the natural gas distribution system.
"Energía Sierra Juárez"	Energía Sierra Juárez, S. de R.L. de C.V., a 155 MW wind powered generation project, located in Baja California, in which the Company and InterGen each hold a 50% equity interest.
"Energy Ministry"	The Mexican Energy Ministry (*Secretaría de Energía*).
"Energy Regulatory Commission"	The Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*).
"Environmental Protection Enforcement Agency"	Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*).
"Ethane pipeline"	The approximately 224 km, three-segment pipeline with a design capacity for the transportation of 238 MMcfd (4.2 MMThd) of ethylene from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz to the Ethylene XXI project's

	ethylene and polyethylene polymerization facility in the State of Veracruz.
"Exchange rate"	The Mexican peso/U.S. Dollar exchange rate published by Banco de México in the Mexican Official Gazette
"Federal Electricity Commission"	The Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*), a productive state-owned company.
"FCA"	Fiat Chrysler Automobiles, N.V.
"FEMSA"	Fomento Económico Mexicano, S.A.B. de C.V.
"FERC"	The U.S. Federal Energy Regulatory Commission.
"First Reserve"	First Reserve, an asset management entity.
"Gasoductos de Chihuahua" or "GdC"	In Gasoductos de Chihuahua, S. de R.L. de C.V., the Company was partner with Pemex TRI until September 26, 2016.
"Gazprom"	Gazprom Marketing & Trading México, S. de R.L. de C.V.
"GDP"	Mexico's gross domestic product.
"Gloria a Dios compression station"	The 14,300 horsepower natural gas compression station installed at the interconnection point between the Samalayuca pipeline and Ciudad Juárez–Chihuahua natural gas pipeline. Property of the Mexican Center for the Control of Natural Gas
"Guadalajara LPG terminal"	The 80,000 Bbl (4.4 MMTh) LPG storage facility, located in Jalisco.
"Guaymas–El Oro pipeline"	The second segment of the Sonora pipeline, comprised of approximately 330 km of 30-inch diameter pipeline with a transportation capacity of 510 MMcfd (5.3 MMThd), it goes through the states of Sonora and Sinaloa. It will include an 11,000 horsepower compression station.
"GW"	Gigawatt.
"GWh"	Gigawatt hours.
"IASB"	International Accounting Standards Board.
"IEnova"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.
"IEnova Marketing"	IEnova Marketing, S. de R.L. de C.V.
"IFRS"	International Financial Reporting Standards issued by the IASB.
"IMG"	Infraestructura Marina del Golfo, S. de R.L. de C.V., the joint venture between IEnova, through Ductos e Infraestructura Marina, S. de R.L. de C.V. with participation of 40% and TransCanada with participation of 60%.
"Income tax"	The Mexican income tax (*impuesto sobre la renta*).
"Indeval"	S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.
"InterGen"	InterGen N.V. and/or its affiliates Energía Azteca X, S.A. de C.V. and/or Energía de Baja California, S. de R.L. de C.V.
"IPP"	Independent power producer.

"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 of Hydrocarbons" or "LH"	Law of Hydrocarbons, published in the Mexican Official Gazette on August 11, 2014.
"Law of Energy Transition"	Law of Energy Transition, published in the Mexican Official Gazette on December 24, 2015.
"Law of Electric Industry"	Law of Electric Industry, published in the Mexican Official Gazette on August 11, 2014.
"Law for the Protection of Personal Data"	The Mexican Federal Law for the Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*), published in the Mexican Official Gazette on July 5, 2010.
"LIBOR"	The London Interbank Offered Rate.
"LNG"	Liquefied natural gas.
"LNG terminal"	The LNG terminal with an aggregate storage capacity of 320,000 m^3 (73.3 MMTh) in two tanks, each of 160,000 m^3 (36.6 MMTh), and a send-out capacity of 1,300 MMcfd (13.5 MMThd) or a nominal capacity of 1,000 MMcfd (10.4 MMThd), located in Ensenada, Baja California.
"Los Ramones I pipeline"	The system comprised of a 48-inch diameter pipeline with an approximate length of 116 km and a design capacity of 2,100 MMcfd (21.8 MMThd), and two compression stations. It extends from the border between the State of Tamaulipas and the U.S. to the interconnection point with the Los Ramones Norte pipeline in the State of Nuevo León.
"Los Ramones Norte pipeline"	The system comprised of a 42-inch diameter pipeline with an approximate length of 452 km and a design capacity of 1,420 MMcfd (14.8 MMThd), and two compression stations, in which the Company holds an ownership interest through its 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.
"LPG"	Liquefied petroleum gas.
"m^3"	Cubic meters.
"Mexican Constitution"	The Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*).
"Mexican Corporations Law"	Mexican Corporations Law (*Ley General de Sociedades Mercantiles*) published in the Mexican Official Gazette on August 4, 1934.
"Mexican 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*).
"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"	The Company's domestic senior notes (*Certificados Bursátiles*).
"Ojinaga–El Encino pipeline"	The approximately 220 km, 42-inch diameter pipeline with a natural gas transportation capacity of 1,356 MMcfd (14.1 MMThd), located in the State of Chihuahua.
"Other comprehensive income"	The Company's other comprehensive income.
"Pemex"	Petróleos Mexicanos, a Mexican productive state-owned company.
"Pemex Gas" or "PGPB"	Pemex – Gas y Petroquímica Básica, a productive state-owned subsidiary for technical, industrial and commercial purposes with own legal personality and property, subsidiary of Pemex, or Pemex TRI as beneficiary of PGPB resulting from PGPB reorganization.
"Pemex TRI"	Pemex Transformación Industrial, a a productive state-owned subsidiary.

"pesos" or "Ps."	The Mexican peso, the official currency of Mexico.
"PUHCA"	The U.S. Public Utility Holding Company Act of 2005.
"report"	This annual report for the year ended December 31, 2016.
"Rosarito pipelines system"	The natural gas transportation system is comprised of three segments of approximately 302 km in aggregate length, which include the 30-inch diameter Rosarito Mainline with a capacity of approximately 534 MMcfd (5.6 MMThd), the 42-inch diameter LNG Spur with a capacity of approximately 2,600 MMcfd (27.0 MMThd), and the 12-inch diameter Yuma Lateral with a capacity of 190 MMcfd (2.0 MMThd). Located in Baja California, it also includes a 30,000 horsepower compression station.
"Rules for Law of Hydrocarbons" or "LH"	Rules for Law of Hydrocarbons, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Law of Electric Industry"	Rules for Law of Electric Industry, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Title III of LH"	Rules for activities related to Title III of Law of Hydrocarbons, published in the Mexican Official Gazette on October 31, 2014.
"Rules for LPG"	Rules for Liquiefied Petroleum Gas, published in the Mexican Official Gazette on December 5, 2007 and revoked by the Rules for Title II of LH, except as expressly stated in the transitory provisions of the latter.
"Rules for Natural Gas" or "Natural Gas Regulation"	Rules for Natural Gas, published in the Mexican Official Gazette on November 8, 1995 and revoked by the Rules for Title II of LH, except as expressly stated in the transitory provisions of the latter.
"Rules for Securities Issuers"	The General Rules for Securities Issuers and for Other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores*) published in the Mexican Official Gazette on March 19, 2003, as amended as of the date hereof.
"Rumorosa Solar"	Solar energy project, currently under construction, the Company was awarded in September 2016 in the second CENACE auction (May 2016) for energy, clean certificates and capacity. The project will have approximately 41 MW and will be located near Energía Sierra Juárez wind power generation facility in Baja California.
"Samalayuca pipeline"	The natural gas transportation system is comprised of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd), which extends from Ejido San Isidro, Chihuahua, to the Mexican Federal Electricity Commission's Samalayuca power plant and interconnects with a separate 16-inch diameter pipeline that is wholly owned by Pemex TRI, which runs from Ciudad Juárez to Chihuahua.
"SMBC"	Sumitomo Mitsui Banking Corporation.
"San Fernando pipeline"	The natural gas transporation system is comprised of approximately 114 km of 36-inch diameter pipeline with a capacity of 1,460 MMcfd (15.2 MMThd) and two compression stations with an aggregate of 95,670 horsepower. The pipeline

	runs from El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas.
"San Isidro–Samalayuca pipeline"	The system comprised of an approximately 23 km pipeline with a transportation capacity of 1,135 MMcfd (11.8 MMThd), and a compression station.
"Sásabe–Puerto Libertad–Guaymas pipeline"	The first segment of the Sonora pipeline, comprised of approximately 505 km of 36-inch diameter pipeline with a natural gas transportation capacity of 770 MMcfd (8.0 MMThd). The pipeline includes two sections in Sonora: the 220 km Sásabe–Puerto Libertad and the 285 km Puerto Libertad–Guaymas sections.
"SDG&E"	San Diego Gas & Electric Company, an affiliate of Sempra Energy.
"Securities Market Law"	Mexican Securities Market Law (*Ley del Mercado de Valores*), published in the Mexican Official Gazette on December 30, 2005.
"Sempra Energy"	Sempra Energy, a California corporation and the Company's indirect parent.
"Sempra Generation"	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
"Sempra International"	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
"Sempra Natural Gas"	Sempra LNG International LLC, 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.
"SISTRANGAS" or "SNG"	Integrated natural gas transportation and storage national system. National pipeline system, totality of pipelines, whether owned by private or public, existing in national territory.
"SoCalGas"	Southern California Gas Company, an affiliate of Sempra Energy.
"Sonora pipeline"	The natural gas transportation system with an aggregate length of approximately 835 km, with a capacity of 770 MMcfd (8.0 MMThd) for the first segment and 510 MMcfd (5.3 MMThd), for the second segment. The system is located in the states of Sonora and Sinaloa. The first segment is the Sasabe – Puerto Libertad – Guaymas pipeline and the second segment is the Guaymas – El Oro pipeline; both segments are interconnected.
"South Texas – Tuxpan pipeline"	The natural gas transportation system, in development through a joint venture with TransCanada, with approximate 800 km and a capacity of 2,600 MMcfd (27 MMThd) and a compression station. In the joint venture, participation is IEnova 40% and TransCanada 60%.
"Storage terms and conditions"	The LNG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento de Gas Natural Licuado*), or the LPG storage terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Almacenamiento*

	de Gas Licuado de Petróleo), as the case may be, which constitute an integral part of the Company's LNG and LPG storage permits, respectively.
"TAG Pipelines Norte"	TAG Norte Holding, S. de R.L. de C.V., together with its subsidiary TAG Pipelines Norte, S. de R.L. de C.V., a joint venture between DEN, an affiliate of Pemex TRI, and TETL, which owns the Los Ramones Norte pipeline.
"Tax and Administrative Court"	The Mexican Federal Tax and Administrative Court (*Tribunal Federal de Justicia Fiscal y Administrativa*).
"TDF LPG pipeline"	The approximately 190 km, 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Bbld (1.9 MMThd) of LPG, extending from the production area of Pemex TRI's Burgos LPG facility in the State of Tamaulipas to the delivery system located in the outskirts of Monterrey, Nuevo León.
"Tecnológico de Monterrey"	Instituto Tecnológico y de Estudios Superiores de Monterrey.
"Tepezalá II Solar"	Solar energy project, currently under construction, the Company was awarded in September 2016 in the second CENACE auction (May 2016) for energy, clean certificates and capacity. The project will have approximately 100 MW, will be located in Aguascalientes and will be developed in joint venture with Trina Solar (NYSE: TSL), which will have a minority participation of 10%. Trina Solar is a company dedicated to the production of solar photovoltaic modules and optimization of solar energy systems.
"Termoeléctrica de Mexicali" or "TDM"	Termoeléctrica de Mexicali, S. de R.L. de C.V., or the combined cycle power plant operated by it, as the context may require, with a 625 MW capacity and located in Baja California.
"TETL"	TETL JV Mexico Norte, S. de R.L. de C.V., the joint venture between BlackRock and First Reserve.
"TGN pipeline"	The natural gas transportation system comprised of approximately 45 km of 30-inch diameter pipeline with a capacity of 940 MMcfd (9.8 MMThd) and an 8,000 horsepower compression station, located in Baja California.
"TIIE"	The Mexican Interbank Balanced Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*).
"Transportation terms and conditions"	The natural gas transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas Natural*), or the LPG transportation terms and conditions (*Términos y Condiciones para la Prestación del Servicio de Transporte de Gas Licuado de Petróleo*), as the case may be, which constitute an integral part of the natural gas and LPG transportation permits, respectively.
"UDI" or "UDIS"	The unit of account whose value in pesos is published periodically by Banco de Mexico.
"United States" or "U.S."	United States of America.
"USPPI"	The U.S. Producer Price Index.
"VAT"	The Mexican value added tax (*Impuesto al Valor Agregado*).

"Ventika"	Ventika includes two adjacent wind powered generation facilities, of 126 MW each, Ventika I and Ventika II, with a total capacity of 252 MW, with a total of 84 turbines of 3 MW each. Located in the state of Nuevo Leon, Ventika I and Ventika II operate as a single wind powered generation facility.
"Ventika I"	Ventika, S.A.P.I. de C.V.
"Ventika II"	Ventika II, S.A.P.I. de C.V.
"WECC"	Western Electricity Coordinating Council.

EXECUTIVE SUMMARY

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

The Company

The Company is the first private sector publicly-traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its footprint in Mexico ranges across several business lines encompassing a significant portion of the Mexican energy infrastructure value chain that is open to private investment. The Company has investment grade from the main rating agencies.

The Company's assets are divided between two business segments: (1) gas segment, which includes natural gas and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, LNG storage and ditribution of natural gas; and (2) power segment, which includes power generation by Termoeléctrica de Mexicali power plant, a natural-gas-fired, combined-cycle power generation facility, and wind power generation facilities Energía Sierra Juárez and Ventika. The Company's assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties. In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2016, 2015 and 2014 are presented in the Consolidated Statements of Profit and Loss as discontinued operations; accordingly, the assets and liabilities of Termoeléctrica de Mexicali were reclassified to the current in the line of assets held for sale and liabilities related to assets held for sale, in the Consolidated Statements of Financial Position.

As a result of changes to Mexican gas regulation in 1995, the Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990's. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 21 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through greenfield development, organic growth, acquisitions and a diversified customer base), investing approximately USD$7.0 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

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

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

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

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

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

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

- Through the Company's joint venture with InterGen, it built and currently operates the first cross-border renewable energy project in Mexico, Energía Sierra Juárez;

- Through the Company's joint venture with Pemex TRI, it built and currently operates 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 and November 2012, the Company built and is operating the Sonora pipeline system with an aggregate length of approximately 835 km, and a design capacity of 770 MMcfd (8.0 MMThd) for the first segment (Sásabe–Puerto Libertad–Guaymas, which is currently in operation) and 510 MMcfd (5.3 MMThd) for the second segment (Guaymas–El Oro) which is expected to begin operations in second quarter of 2017, and two compression stations;

- Through the Company's joint venture with Pemex TRI, the Company developed the Guadalajara LPG terminal with a combined capacity of 80,000 Bbl (4.4 MMThd) divided among four storage tanks, each with approximately 20,000 Bbl (1.1 MMThd) of capacity, which began operations in 2013;

- The Company built, jointly with Pemex TRI, the approximately 116 km, 48-inch diameter Los Ramones I pipeline with 2,100 MMcfd (21.8 MMThd) of capacity and two compression stations. The pipeline began operations in December 2014;

- The Company developed, jointly with TAG Pipelines Norte joint venture, 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. The pipeline began operations in February 2016;

- Pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in December 2014, the Company is building the approximately 220 km, Ojinaga–El Encino pipeline with a capacity of 1,356 MMcfd (14.1 MMThd). The Company expects to begin operations in second quarter of 2017;

- Pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015, the Company is operating the approximately 23 km San Isidro–Samalayuca pipeline with a capacity of 1,135 MMcfd (11.8 MMThd), which includes a compression station. The pipeline started operations in March 2017;

- The Company is building the Empalme Lateral, an approximately 20 km natural gas transportation system with a capacity of approximately 226 MMcfd (2.4 MMThd) pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in May 2016. The Company expects to begin operations in second quarter 2017;

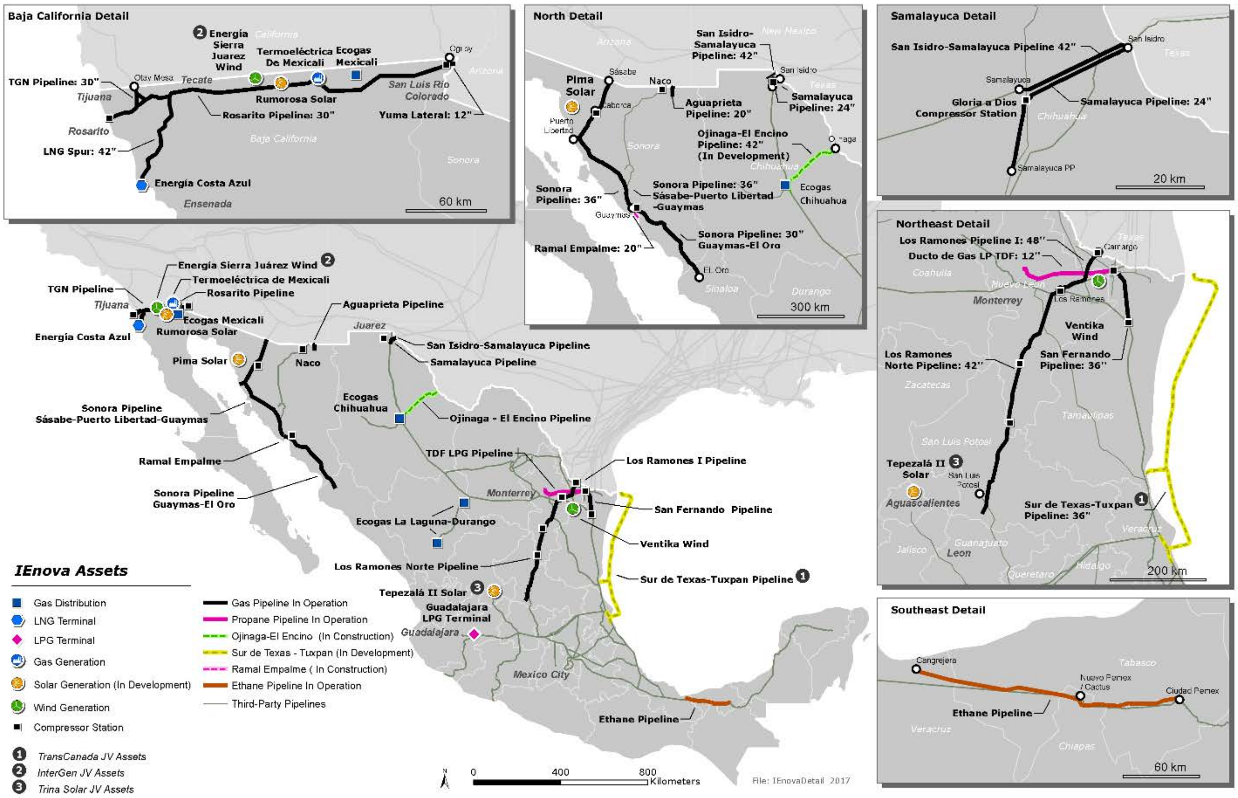
- The Company began developing, through a joint venture with TransCanada, the marine pipeline South of Texas-Tuxpan, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services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

- In September 2016, the Company participated in the second auction for energy, power and clean energy certificates issued by CENACE, in May 2016, with a portfolio of solar energy projects. The Company was awarded two projects, the Rumorosa Solar project and the Tepezalá II Solar project, as a result of its bids in this auction. The Company intends to develop, build and operate the approximately 41 MW Rumorosa Solar project near its Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW Tepezalá II Solar project will be located in Aguascalientes;

- In December 2016, the Company acquired 100% of the equity interests of Ventika. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. Powered by 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$434.7 million including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. Ventika started operations in April 2016. Substantially, all Ventika's generation capacity is contracted to private companies through 20-year energy supply agreement, U.S. Dollar denominated; and

- In March 2017, the Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DEACERO for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW Pima Solar project, with 110 MW. The estimated commercial operations date is the fourth quarter of 2018.

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



Gas Segment

- *Pipelines and Storage Business*

  - The Company's pipelines business develops and operates systems for receiving, transporting, compressing, storing and delivering natural gas, ethane and LPG throughout the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems (including assets under construction or operated through joint ventures) feature:

    - More than 2,900 km of natural gas pipelines (of which approximately 1,393 km were under construction as of December 2016) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd);

    - Ten natural gas compression stations in operation, and four compression stations currently under construction, with an aggregate of over 586,310 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 33 MMcfd (0.6 MMThd) in the first segment; up to 100 MMcfd (1.8 MMThd) in the second segment and approximately 106 MMcfd (1.9 MMThd) in the third segment; and

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

  - The Company's current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station, Sonora pipeline (Sasabe – Puerto Libertad – Guaymas section has been completed and Guaymas – El Oro section is estimated to begin operations in second quarter of 2017), Ojinaga–El Encino pipeline (expected to begin operations in second quarter of 2017), San Isidro – Samalayuca pipeline (which started operations on March 2017), Empalme Lateral (expected to begin operations in second quarter of 2017) and South of Texas – Tuxpan pipeline, the joint venture with TransCanada (expected to begin operations in the last quarter of 2018). The company's pipeline assets also include 100% interest of the assets held by its former joint venture with Pemex TRI, Gasoductos de Chihuahua, in which the Company held 50% interest before September 27, 2016. Gasoductos de Chihuahua owns the San Fernando pipeline, Samalayuca pipeline, Ethane pipeline, TDF LPG pipeline, Los Ramones I pipeline, Gloria a Dios compression station, Guadalajara LPG terminal and the joint venture with TAG Pipelines Norte, through DEN, Gasoductos de Chihuahua owns the Los Ramones Norte pipeline, which started operations in February 2016.

- *Liquefied Natural Gas Business*

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

- *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 3,757 km in length, this system currently serves over 119,000 industrial, commercial and residential customers.

  - For the year ended December 31 2016, gas segment had revenues of approximately USD$712 million, which accounted for 99% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$485 million, which accounted for 96% of the total adjusted EBITDA for the period. This revenue figure does not include net equity in earnings of USD$42 million from the Company's joint venture with Pemex TRI, which is account for using the equity method; however, the Company includes a 50% share of the EBITDA from this joint venture in the adjusted EBITDA for gas segment.

Power Segment

- *Natural Gas Fired Power Generation Business*

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

California Independent System Operator at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California.

In February 2016 the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, beginning in 2016 the results of Termoeléctrica de Mexicali were included in the consolidated statements of profit under "Discontinued operations."

- *Renewable Powered Generation Business*

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

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

  - In December 2016, the Company acquired 100% of the equity interests of Ventika. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. Powered by 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$434.7 million including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. Ventika started operations in April 2016. Substantially, all Ventika's generation capacity is contracted to private companies through 20-year energy supply agreement, U.S. Dollar denominated.

  - For the year ended December 31 2016, power segment did not have significant revenues due to the TDM classification as discontinued operation and the recognition of 17 days of operations of Ventika wind generation facilities by approximately USD$3 million. Adjusted EBITDA of approximately USD$19 million, accounted for 4% of the Company's total adjusted EBITDA for the year.

Strengths

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

- ***Proven development capability and extensive experience operating diverse energy assets.*** With over 20 years of experience operating in Mexico, the Company has developed the necessary skills and relationships to successfully build, own and operate critical energy infrastructure in the country. Over this time, the Company has established a proven track record of building greenfield and brownfield projects and the flexibility to acquire energy assets in existing and new lines of business highlighted by the acquisition of Pemex TRI's remaining 50% interest in Gasoductos de Chihuahua for USD$1.14 billion in cash, plus the assumption of existing indebtedness and the acquisition of Ventika wind generation facilities for USD$434.7 million in cash plus the existing indebtedness. The Company made its first investment in Mexico in 1996, when it won the first private natural gas distribution permit awarded in Mexico, and have subsequently developed ECOGAS business into a model natural gas distribution company. The Company's largest project to date is the investment of USD$1.2 billion in the LNG terminal. Other notable projects include the approximately USD$350 million investment to construct the natural gas-fired combined-cycle power plant in Mexicali, Baja California, the 2010 acquisition of USD$300 million of Mexican energy infrastructure assets from El Paso Corporation, which included the joint venture with Pemex TRI, and the USD$200 million investment in expanding the Rosarito pipelines system and TGN pipeline. In addition, the Company recently completed the first segment of the Sonora pipeline for a total investment of approximately USD$1.0 billion, and projects developed through Gasoductos de Chihuahua: Samalayuca pipeline, Guadalajara LPG terminal, TDF, Gloria a Dios compression station, Los Ramones I pipeline, Los Ramones Norte pipeline and Ethane pipeline, which represented an aggregate investment of approximately USD$2.0 billion (on a 100% ownership basis). The Company believes that its experience in the energy sector positions the Company to take advantage of possible investment opportunities with developers looking for divisions/spin-offs, in projects nearing completion, in companies seeking strategic partners and in companies under financial distress and seeking liquidity through the sale of assets.

- ***Financing capacity to pursue new opportunities in the energy sector.*** As of December 31 2016, the Company had consolidated debt of approximately USD$1.9 billion and net debt to Pro Forma EBITDA ratio of 3.2 times, which provides the Company with the financial flexibility to competitively pursue acquisitions, organic growth opportunities and new greenfield opportunities. In addition, the Company has demonstrated an ability to successfully access the capital markets, having raised USD$408 million in debt markets and USD$599 million in public equity markets in February and March of 2013, respectively, and USD$1.6 billion in the follow-on equity offering in October 2016. Furthermore, the Company has obtained a USD$1.17 billion credit facility which may be drawn upon to supplement the cash flows generated by the company's operations and meet its short-term capital needs. Intercompany loans from subsidiaries of Sempra that are the company's affiliates have been, and are expected to continue to be, a source of financing.

- ***Demonstrated ability to execute wide-ranging growth strategy.*** The Company has managed to consistently grow its business by implementing a diversified growth strategy through new businesses and expanding its customer base and positioning itself as a key player in the fast-growing energy sector in Mexico. The Company continues to successfully navigate public-sector pipeline tender processes, having been awarded contracts by the Mexican Federal Electricity Commission for the development and operation of the Ojinaga—El Encino natural gas pipeline project in November 2014, the San Isidro—Samalayuca natural gas pipeline project in July 2015, the Empalme Lateral natural gas pipeline project in May 2016 and the South of Texas—Tuxpan natural gas pipeline project (through the joint venture with TransCanada) in June 2016. The Company is well-positioned to take advantage of the announced expansion of Mexico's National Pipeline System. The Company also continues to compete for the acquisition of privately-held assets, most recently having completed the acquisition of Ventika, and to compete in public auctions, such as the recently concluded auction conducted by CENACE, in which the Company was awarded the approximately 41 MW Rumorosa Solar project and the approximately 100 MW Tepezalá II Solar project.

- ***Cash flow stability and visibility through long-term contracts.*** The Company has contracted out a substantial portion of the capacity of its assets across its business segments under long-term agreements under which the Company's customers are required to pay regardless of whether they actually use their contracted capacity, which helps provide the Company 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 the Company's cash flows, these firm capacity supply agreements also minimize the direct exposure to commodity price risk. The current fee structure minimizes the Company's market risk in that rates, which for some of the Company's 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.*** The Company's 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 the Company's scale, geographic position and diverse asset base, the Company believes it is ideally positioned to continue to expand and build out its platform of energy infrastructure assets. Due to the Company's track record as pioneers in private energy infrastructure investment in Mexico and the Company's relationships with key players in the industry, the Company is well- positioned to expand into new energy sectors as opportunities for private investment arise. In addition, as the majority of the Company's energy infrastructure assets are located across northern Mexico, the Company is strategically positioned to be a key player in the growing demand for the import and transportation of hydrocarbons across the Mexico—U.S. border.

- ***Solid record of compliance and positive relationships with Mexican regulatory agencies and government-owned companies.*** The Company has worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies over the past 21 years and have developed a deep understanding of the regulatory process regarding the Mexican energy sector. The Company believes its cooperation and close coordination with the relevant regulatory bodies in Mexico are key strengths of its business, and the Company intends to continue to nurture and build upon these positive relationships. Moreover, these relationships have been built on the expertise the Company has developed while operating in Mexico. The Company also has long-term contractual relationships with government-controlled energy companies and entities (The National Center of Control of Natural Gas (Centro Nacional de Control de Gas Natural), or CENAGAS, Pemex and the Mexican Federal Electricity Commission), as well as permits and authorizations to develop and operate the Company's energy assets in Mexico.

- ***Experienced management team.*** The Company's management team has extensive experience in the energy infrastructure sector. The Company believes it has the knowledge and skills necessary to successfully and safely manage all of its assets and operations and the development expertise necessary to expand the existing footprint and enter into new energy sectors as opportunities arise. The Company believes its management team is one of the principal competitive strengths relative to the industry peers.

- ***World-class parent company.*** The Company also benefit from the strong support of its indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale. Based in San Diego, California, Sempra Energy is a Fortune 500 company providing energy services, with revenues of approximately USD$10 billion in 2016. Sempra Energy companies employ nearly 16,000 people and provide energy-related products and services to more than 32 million consumers worldwide. Through the Company's relationship with Sempra Energy, the Company expects to continue to have access to a significant pool of strong commercial relationships throughout the energy industry and broad operational, commercial, technical, risk management and administrative infrastructure and support. The Company believes this access should, among other things, continue to maximize the operational and financial performance of its assets and enhance the efficiency of its current operations as well as its growth and expansion projects.

Summary Financial Information

(in thousands of U.S. Dollars)	Year ended December 31,		
	2016	2015	2014
Revenues	717,894	613,041	738,830
Depreciation and amortization	(64,384)	(52,470)	(46,728)
Profit for the period	754,990	140,189	136,934

(in thousands of U.S. Dollars)	Year ended December 31,		
	2016	2015	2014
Finance lease receivable, short-term	7,155	-	-
Finance lease receivable, long-term	950,311	14,510	14,621
Property, plan and equipment, net	3,614,085	2,595,840	2,377,739
Intangible	154,144	-	-
Goodwill	1,651,780	25,654	25,654
Total assets	7,126,948	3,507,082	3,380,218
Cuurent liabilities	971,674	543,341	367,550
Total non-current liabilities	1,804,963	783,877	763,380
Total liabilities	2,776,637	1,327,218	1,130,930
Total stockholders' equity	4,350,311	2,179,864	2,249,288

Ratios	Year ended December 31,		
	2016	2015	2014
Current assets / current liabilities	0.5 times	0.4 times	0.9 times
Total liabilities / total assets	39%	38%	33%
Total liabilities / stockholders' equity	64%	61%	50%
Days of sales in accounts receivable	33 days*	32 days	29 days

* Proforma

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

IEnova * Date	Closing Price	Average Volume
2013	52.17	1,886,829
2014	73.80	1,034,837
2015	72.34	1,139,929
2016	90.33	2,659,053
31-Mar-2017	89.22	2,268,024

*Source: IEnova, based on Bloomberg data.

RISK FACTORS

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

Risks Relating to The Company's Business and Industry

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

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

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

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

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

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

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

Mexico is also a party to many international agreements regarding environmental protection. The Company anticipates that the regulation of its business operations under Mexican federal, state and local environmental laws and regulations will increase and become more stringent over time, including as a result of international agreements. Such international agreements, upon ratification by the 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While it is difficult to predict the scope and effect of new environmental laws and regulations, such changes could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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 it 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, the Company cannot predict the outcome of any action brought against it or the extent to which it could be held liable under such law. See "Regulation, Permits and Environmental Matters." The cost of remediating or providing compensation for any environmental damage could be significant and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

Mexico has developed a new legal framework for the regulation of the 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 the Company's pipelines and natural gas distribution businesses is set forth in the new Mexican Hydrocarbons Law (Ley de Hidrocarburos), the Mexican Hydrocarbon General Regulations (Reglamento de la Ley de Hidrocarburos) and the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbons Law (Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos). Power generation business is subject to regulation under the Mexican Electricity Industry Law (Ley de la Industria Eléctrica) and the Regulations Under the Law for the Electricity Industry (Reglamento de la Ley de la Industria Eléctrica), except for "grandfathered" projects, which remain governed by the Mexican 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, given the recent creation of this legal framework, it is uncertain how it would be interpreted in practice. The Company also cannot predict the manner in which the new legal framework would affect any new business opportunities the Company may wish to pursue. See "Regulatory, Permits and Environmental Matters." For example, since the publication of the constitutional amendments relating to the Mexican energy sector in December 2013, and as of December 31, 2016, a number of Mexican authorities and government-related entities have published in the Mexican Official Gazette more than 100 laws, regulations, resolutions, rules, notices and other provisions relating to hydrocarbons, and more than 50 relating to electric power, the vast majority of which are intended to regulate the activities of participants in the Mexican energy sector.

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

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

The Company cannot predict the potential effect on its 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 the Company to incur additional costs and, accordingly, could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In 2016, at the 22st Conference of Parties to the United Nations Framework Convention on Climate Change, or COP22, in Morocco, following the activities initiated in the COP21 of 2015 in Paris. COP22 had the representation of 160 countries. The principal agreements reached during COP22 include: (i) establishing rules of application that include transparency, measurement, accounting of emissions reduction and financing, mainly, (ii) multilateral evaluation, using the Intended Nationally Determined Contributions; (iii) Transparency Capacity Creation initiative, using financing resources for a total of USD$50 million, donated by 11 countries (iv) alliance for the Intended Nationally Determined Contributions, which represents a coalition to ensure that technical and financing support is provided, aimed to achieve sustainable development.

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

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

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

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

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

The Company is assessing the possibility of adding liquefaction capabilities to the LNG terminal. In the first quarter of 2015, the Company, Sempra Energy and a Pemex affiliate entered into several cooperation and coordination agreements for the development of natural gas liquefaction facilities at LNG terminal. The Company's LNG terminal is the subject of certain disputes challenging the issuance of the construction and operation permits and authorizations for its LNG terminal, or LNG terminal permits, which may hinder its ability to secure financing for the project or to identify suitable partners and customers. In addition, because the Mexican permitting process and U.S. regulations for the delivery of natural gas to LNG facilities located in Mexico are still under development, the Company cannot assure you that the Company would not face significant challenges in securing the requisite construction permits or building the relevant facilities, and any such challenge could hinder its ability to secure adequate financing or to identify suitable partners and customers for this project. In addition, the development of the proposed liquefaction project will depend to a large extent on the condition of the global markets for LNG, including, in particular, as it relates to the supply and demand for LNG from the west coast of the Americas. The Company's LNG terminal has in place several profitable long-term regasification agreements that account for 100% of the terminal's installed capacity. Any decision on whether to add liquefaction capabilities to the terminal will depend in part on whether the investment in the construction of the requisite facilities would be more profitable than the continuing provision of regasification services, only, under the existing agreements. Pursuant to the Company's existing agreements, the Company is required to provide storage and regasification services to its customers through 2028 (or later, if customers exercise their renewal rights under such agreements). The Company may opt for offering both regasification and liquefaction, or only liquefaction services to its customers, or for continuing to provide regasification services only. If the Company is unable to continue to offer regasification services to its existing customers, or if the construction of the liquefaction facilities renders it unable to provide such services on a timely fashion, the Company may be held liable for indemnification to such customers under the existing agreements, which could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

As of December 31, 2016 the Company had outstanding borrowings from affiliates in the amount of approximately USD$251.7 million. If the Company's affiliates do not provide it with debt financing in the future, the Company may be unable to secure alternative sources of funding, which would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While the Company believes that the rates and terms of the borrowings the Company has received in the past from its affiliates are comparable to those the Company would have obtained from unrelated third parties in arm's-length transactions, it can provide no assurance that the Company would have been able to obtain such borrowings from unrelated third parties at rates and on terms that were as favorable to it as those the Company has received from its affiliates. The Company may not be able to obtain similar financing from these affiliates or any alternate third party at reasonable rates and terms or at all. Any failure to obtain sufficient debt financing on acceptable rates and terms could adversely affect the Company's ability to satisfy its contractual obligations or to grow its business, and could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Recent Developments."

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

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

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

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

In addition, a Mexican 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 the Company's 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company has 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 the Company may become involved in other litigation and administrative proceedings relating to claims arising out of the Company's operations and properties. These may include claims filed by suppliers and customers, government regulators, including tax authorities, neighboring residents and environmental activists, as well as labor disputes. The outcome of these proceedings may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the legal and administrative proceedings to which the Company is a party, see "Business – Legal, Administrative and Arbitration Proceedings."

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

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

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

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

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

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

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

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries or fatalities. Any of these consequences could lead to significant claims against us. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds the Company receives may be insufficient to cover the Company's losses or liabilities, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The acquisition of the remaining 50% ownership interest in Gasoductos de Chihuahua, from Pemex TRI, exposes the Company to material risks. The Company's 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 the Company's 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. The Company's 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 the Company's management from the its existing projects, give rise to disruptions in such projects or result in an acquisition not being adequately integrated. The Company may prove unsuccessful at integrating Gasoductos de Chihuahua's businesses with the Company's own, or experience difficulties in connection with the integration of their operations and systems (including IT, accounting, financial, control, risk management and safety systems). The Company's 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

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

- Obtaining the necessary property rights and other real estate rights;
- Negotiation of satisfactory engineering, procurement and construction agreements;
- Negotiation of supply and natural gas or electricity sales agreements or firm capacity supply agreements;
- Timely receipt, maintenance and extension 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 the Company's 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 construction of projects, such as hidden defects, inherited environmental liabilities and problems with rights-of-way;
- Unanticipated increases in costs associated with known or unknown adverse environmental conditions, including costs of compliance with environmental laws; and
- The foreign exchange effect in imported material and equipment.

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

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

The market for new energy infrastructure projects in Mexico is highly competitive. The Company competes with Mexican and foreign companies for most of the new energy infrastructure projects in Mexico and some of the Company's competitors may have better access to capital and greater financial and other resources, which would give them a competitive advantage in bidding for such projects. The Company may also face increased competition for new energy infrastructure projects and to retain the key employees as a result of the recent amendment of the legal framework for the regulation of Mexico's energy sector. The Company may also decide to compete for energy infrastructure projects in new market segments in which the Company has no prior experience. For additional information, see "Regulation, Permits and Environmental Matters." In addition, the Company 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. The Company's inability to obtain the award of new energy infrastructure projects could adversely affect the Company's expected growth and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

The Company generally endeavors to secure long-term contracts with customers to optimize the use of the Company's facilities, reduce volatility in earnings and support the construction of new infrastructure. However, if these contracts are at fixed prices, the profitability of the contract may be materially adversely affected by inflationary pressures (in the case of contracts 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 the Company's long-term contracts could incur in default with their obligations thereunder and any such default could have a material adverse effect on the Company. While the Company frequently requires that counterparties provide it with bank or other types of guaranties, the financial support provided by the guarantors is not always sufficient to offset in full any losses the Company may suffer and exposes it to counterparty risks. Any of these factors may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company depends on a limited number of customers with whom it has entered into long-term agreements.

The Company has entered into long-term capacity agreements with Shell, Gazprom and IEnova Marketing, under which users pay capacity reservation and usage fees to receive, store and regasify their LNG at the LNG Terminal. The Company has also entered into long-term capacity agreements with a limited number of key customers, including CENAGAS, Pemex TRI, the Mexican Federal Electricity Commission, Shell, Gazprom, InterGen and its subsidiary IEnova Marketing, under which users pay capacity reservation and usage fees to receive, transport and deliver natural gas or LPG, as applicable, through the Company's pipelines. In addition, under an electricity purchase agreement with the Company's U.S. affiliate, Sempra Generation, that was in effect through December 31, 2011, Sempra Generation paid to the Company a fee for the power generated by Termoeléctrica de Mexicali power plant. After giving effect to the consolidation of the intercompany revenues received from IEnova Marketing, during the years ended December 31, 2016, 2015 and 2014 the Company's four largest customers together accounted for approximately 69%, 72% and 66%, respectively, of total revenues. During the same periods, no other customer accounted for more than five percent of the Company's total revenues. In each of 2016, 2015 and 2014, the largest customer accounted for approximately 31%, 29% and 28%, respectively, of the Company's total revenues.

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

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 the Company's counterparties to satisfy when due its obligations to the Company under the agreements described above, or the termination of any such agreement, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. Furthermore, there can be no assurance that, in the event of termination of any of these agreements, the Company would be able to enter into LNG storage capacity or natural gas transportation service agreements with other users or customers on a long-term basis, on otherwise favorable terms, or at all, and the Company's inability to do so could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The operation of the Company's 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;
- The exercise of government eminent domain power, or other similar events; and
- Operational accidents.

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

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

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

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

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

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

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

- Deliver the electricity, natural gas and LPG the Company sells to its customers;
- Supply natural gas to the Company's electric generation facilities;
- Provide retail energy services to customers; and
- Supply the Company with natural gas and LPG for sale to its customers.

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

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

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

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

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

The Company may face construction delays or increases in costs in the energy generation projects as a result of delays or the impossibility of obtaining rights-of-way to the land through which power transmission lines 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, the Company may incur additional costs and delays in the start of operations. Furthermore, in the event that rights-of-way are impossible to obtain, the Company may be required to change the route of a project, which may also result in cost increases and delays in the start of operations, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The Company buys energy-related commodities from time to time in order to satisfy contractual obligations with customers. The Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities could be materially adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that the Company buys change in a direction or manner not anticipated and for which the Company had not provided adequately through purchase or sale commitments or other hedging transactions. In addition, while at present the Company is not directly exposed to market risks in connection with ECOGAS natural gas distribution business because the price the Company pays for natural gas is passed through to the ECOGAS customers, natural gas prices relative to LPG prices affect the Company's ability to sell natural gas and, accordingly, may have a material impact on the natural gas distribution business. On January 1, 2012, the Company's

Termoeléctrica de Mexicali power plant began selling electricity to the U.S. market on a merchant basis pursuant to an electricity management agreement with the affiliate, Sempra Generation. Under this arrangement the Company is no longer reimbursed for its purchases of natural gas to fuel Termoeléctrica de Mexicali power plant as the Company was in prior years and may also need to purchase electricity in the open market to satisfy contractual obligations. This arrangement exposes the Company to significantly more commodity price risk than the previous agreement the Company had in place to sell electricity from the power plant directly to the Company's affiliate Sempra Generation. Termoeléctrica de Mexicali power plant competes in the U.S. open market for the sale of electricity and other related products, and its profitability is affected by the price of commodities such as natural gas and the prices for its products in the open market. Additionally, under this new agreement the Company's annual costs of energy management services rose to approximately USD$5.0 million in connection with Termoeléctrica de Mexicali. Furthermore, the Company currently purchases natural gas to supply Termoeléctrica de Mexicali power plant directly from its subsidiary IEnova Marketing. Because under a previous agreement with JPM Ventures Energy, JPM Ventures Energy sold natural gas to the Company at a price that was less than the rate the Company would otherwise have had to pay to have natural gas delivered to the facility, the Company's 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 the Company's pipeline projects under construction. The Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities may be materially adversely affected by fluctuations in commodity market prices and/or import duties.

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

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

Unanticipated changes in market prices for energy-related commodities result from multiple factors, including: (1) weather conditions, (2) seasonality, (3) changes in supply and demand, (4) transmission or transportation constraints or inefficiencies, (5) availability of competitively priced alternative energy sources, (6) commodity production levels, (7) 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 the Company performs credit analyses prior to extending credit, the Company is exposed to the risk the Company may not be able to collect amounts owed to us. Such changes in market prices or inability to collect amounts owed to the Company could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the Company's hedging strategy and position, see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Quantitative and Qualitative Discussion of Market Risk" and Notes 21 and 24 to the Company's audited financial statements included elsewhere in this report.

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

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

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

Through the Company's joint venture with Pemex TRI, the Company holds a non-controlling interest through DEN, one affiliate of PEMEX and TETL for the operation of the Los Ramones Norte pipeline, which began operations in February 2016. The Company has also entered into a joint venture with TransCanada for the development, construction and operation of the South of Texas – Tuxpan pipeline, a natural gas transportation system with approximately 800 km, expected to start operations in the fourth quarter of 2018; and the Company has entered into a joint venture with InterGen for the operation of the Company's Energía Sierra Juárez wind power generation project, which began operations in June 2015. The Company shares the control of these joint ventures with its partners and, accordingly, in the event of any disagreement between it and its partners the Company may be forced to sell its interest in the relevant joint venture, purchase its partners' interests therein or submit to dispute resolution proceedings. If any joint venture partner were unwilling to cooperate effectively with the Company in the management and operation of the joint venture, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

At December 31, 2016, the Company had 883 employees. These included 135 administrative employees and 748 operation and maintenance workers, of whom 31 were covered by collective bargaining agreements with several labor unions. The Company's collective bargaining agreements are negotiated on a facility-by-facility basis, and the compensation terms are adjusted on an annual basis, whereas all other terms are renegotiated every two years.

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

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

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

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

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

The insurance contracts the Company has may be inadequate.

The Company has insurance for its operations in Mexico, including the Company's 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 the Company considers appropriate. However, the Company cannot assure you that the insurance currently in place or other insurance that may be appropriate will be available in the future at commercially reasonable rates. In addition, in any particular instance the Company's insurance coverage could prove to be insufficient or an accident or casualty could occur that either is not covered or becomes the subject of a dispute. Currently, the Company does not carry certain types of insurance (for example, for losses caused by war or government action) because these types of losses are often not economically insurable.

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

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

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

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

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

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

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

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

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

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

Certain components of the Company's 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 the Company's 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 the Company's 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, pipeline infrastructure and other facilities. While addressing these risks is the subject of significant ongoing efforts across the Company's businesses, no assurance can be given to the effect that a successful attack will not occur. Any attack on the Company's information systems, the integrity of the power grid or any of the Company's facilities, or the unauthorized use of confidential customer data, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In the ordinary course of the Company's business, it acquires sensitive information, including personal information of its customers and employees, information regarding the power usage levels of 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 the Company, which could damage its 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 it operates. Any cyber-attack against the Company could result in a generalized disruption of its operating and management systems, the destruction of critical information and software or the disclosure of confidential information about the Company or about its customers, employees and others, which could affect the Company's business and threaten the integrity of the power grid.

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

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

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

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

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

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

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

- Natural gas, propane and ethane pipelines, storage and compression facilities;
- LNG terminals and storage;
- Electric distribution infrastructure; and
- Power generation facilities.

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

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

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

Risks Relating to Mexico

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

Substantially all of the Company's operations are conducted in Mexico and the Company's potential for growth is centered in Mexico; the Company's business is therefore significantly dependent upon the performance of the Mexican economy. As a result, the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities may be materially adversely affected by the general condition of the Mexican economy, over which the Company has 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert Mexican pesos into U.S. Dollars (except for certain restrictions related to cash transactions involving a U.S. Dollar payment to a Mexican bank) or other currencies and Mexico has not had a fixed exchange rate policy since 1982. The Mexican peso has been subject to significant devaluations against the U.S. Dollar in the past and may be subject to significant fluctuations in the future. Severe devaluations or depreciations of the Mexican peso may result in governmental intervention to institute restrictive exchange control policies, as has occurred before in Mexico and other Latin American countries. Accordingly, fluctuations in the value of the Mexican peso against other currencies, particularly the U.S. Dollar, may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. 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 2016, 2015 and 2014, Mexico's GDP grew by 2.30%, 2.63% and 2.27%, 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The 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 the Company in particular, as well as on market conditions, prices and returns on Mexican securities, including the Company's 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its 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, the Company's 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.

The upcoming presidential elections in Mexico in 2018 may represent additional changes in the regulation of the energy sector. In addition, the reforms approved between 2012 and 2016 may also affect the Company's business in ways that currently can not be predicted.

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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its 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 the Company's 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 USD$15 million increase in the Company's 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 the Company was required to make an advanced payment of approximately USD$81 million, which was reported under short-term income tax liabilities in the Company's consolidated statement of financial position. In addition, because the Company may no longer offset the Company's income tax assets and liabilities, the income tax receivables and liabilities of the Company's 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 the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities will not be materially and adversely affected by Mexico's political environment or by future developments.

A series of proposals were approved in the Congress of the Union, which 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 the Company's 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 the Company by its customers or other market participants. Because the relevant laws have not yet been the subject of extensive judicial interpretation or enforcement, the Company cannot predict the outcome of any class action brought against the Company under such laws, including the extent to which the Company may be found liable as a result and the effect thereof on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Regulation, Permits and Environmental Matters – Legal Framework; Taxation – Constitutional Amendment on Class Actions."

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

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

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

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

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

U.S. Presidential Elections took place in November 2016, any renegotiation of trade agreements and change of immigration policy, may prompt potential retaliatory action on the part of Mexico. The foregoing actions by either or both governments could affect imports and exports between Mexico and the United States.

The new presidential administration in the United States could renegotiate the terms of trade agreements between the United States and Mexico, such as NAFTA. The Mexican government has mentioned its willingness to renegotiate or withdraw from NAFTA. The foregoing actions by either or both governments could affect imports and exports between Mexico and the United States, which could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its Shares.

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

Over the past few years Mexico has experienced a significant increase in violence relating to illegal drug trafficking, particularly in northern Mexico near the U.S. border, and most of the Company's facilities are located in this region. This increase in violence has had an adverse impact on the economic activity in Mexico. Also, social instability in Mexico and adverse social or political developments in or affecting Mexico could materially adversely affect the Company and its financial performance. In addition, violent crime may increase the Company's insurance and security costs. The Company cannot assure you that the levels of violent crime in Mexico, over which the Company has no control, will not increase or will decrease. An increase in violent crime could have material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Events and the perception of risk in other countries, especially the United States 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 the Company's securities and make it more difficult for it to access capital markets and finance its operations in the future on acceptable terms, or at all, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

The Mexican Federal Anticorruption Law in Public Contracting (*Ley Federal Anticorrupción en Contrataciones Públicas*), the U.S. Foreign Corrupt Practices Act 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 the Company's internal control policies and procedures will protect it from reckless or criminal acts committed by its employees or agents. Violations of these laws, or allegations of such violations, could disrupt the Company's business and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Preemptive rights may be unavailable to non-Mexican shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Forward-looking Statements

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

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

- Local, national and international economic, competitive, political, legislative and regulatory conditions and developments;

- Actions and the timing of actions by regulatory, governmental and environmental bodies in Mexico and other countries, including actions relating to the reform of the Mexican energy sector;
- Energy markets, including the timing and extent of changes and volatility in commodity prices;
- Services and financing provided to the Company by affiliates;
- The resolution of litigation and property disputes;
- The loss of significant suppliers or customers;
- The Company's ability to hire, train and retain qualified employees and executives;
- The timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;
- The Company's ability to successfully compete with its peers for the award of energy infrastructure projects;
- The availability of electric power, natural gas 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 the Company does not own or control to deliver natural gas;
- Risks posed by working with volatile and hazardous materials;
- Risks posed by attacks on the Company's information systems and integrity of its energy grid;
- Temporary or permanent disruption of operations at the Company's existing pipelines and/or storage facilities due to acts of God, *force majeure* or other events outside of the Company's control;
- Government expropriation of assets and title and other property disputes;
- Capital markets conditions, including the availability of credit and the liquidity of the Company's investments;
- Risks relating to the Company's counterparties' inability or unwillingness to satisfy their contractual obligations to us;
- Risks relating to the decisions and actions of the Company's joint venture partners; and
- Other risks and uncertainties discussed under "Risk Factors" and elsewhere in this report.

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

OTHER SECURITIES

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

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

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

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

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

USE OF PROCEEDS

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

PUBLIC DOCUMENTS

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

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

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

THE ISSUER

a) The Company's History and Evolution

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

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

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

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

Recent Developments

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

Execution of agreements related to the two renewable energy projects, awarded in the second long-term supply auction organized by the Centro Nacional de Control de Energía (CENACE). In January 2017, the Company announced the execution of the power purchase agreements with the CFE related to the two projects previously awarded. In September 2016, the Company announced its participation with a portfolio of projects in the second auction held by CENACE by which it was awarded with two of its projects. The Company will develop, construct, and operate the approximately 41 MW Rumorosa Solar project, which is located near the Energía Sierra Juárez wind park in the state of Baja California and the approximately 100 MW Tepezalá II Solar project, which is located in the State of Aguascalientes. The estimated investment for both projects is USD$150 million.

Changes in the board of directors. In January 2017, the Company announced the resignation of Mr. Andres Conesa Labastida as independent member of the board of directors. In the session of February 21 2017, the board of directors designated Mr. Jose Julian Sidaoui as a provisional independent member, until the annual shareholders' meeting, at which the shareholders will either ratify the provisional member or designate his or her substitute.

The appeal filed by Mr. Roberto Valdez against the environmental permit granted to the liquefied natural gas facility in Ensenada was resolved in favor of Ienova. In January 2017, the Collegiate Circuit Court published a resolution by which it denied the Amparo requested by Roberto Valdez Castaneda, therefore, this matter has concluded definitively in favor of Ienova.

Material Events

Ventika acquisition. In December 14 2016, the Company obtained COFECE approval to acquire the 100% of equity interests (other than Series C shares that have neither voting nor economic rights) in the 252 MW Ventika I and Ventika II wind power generation facilities, and in December 15, 2016, the Company executed that acquisition through Controladora Sierra Juarez S. de R.L. de C.V., acquiring 100% of equity interests of Ventika I and Ventika II from Blackstone Energy Partners, Fisterra Energy and other minority partners. Cash price was USD$434.7 millones plus the existing indebtedness. The aforesaid acquisition was approved through an Extraordinary Shareholder's Meeting of IEnova, on October 7, 2016. Ventika started commercial operations on April 2016, with 84 turbines (up to 252 MW of installed capacity), and jointly, constitute some of the biggest wind farms in Mexico and Latin America. Located in the Municipality of General Bravo, in the State of Nuevo León, approximately 56 kms from the United States of America border, these farms were developed by the current majority shareholder, Fisterra Energy, a company of Blackstone Energy Partners and Cemex, a multinational construction materials company. After the acquisition, Cemex will continue to operate the assets. The generated electricity, and the Ventika capacity, are contracted to private parties through long-term energy purchase and sale agreements in US Dollars. For a more comprehensive description of the Ventika Plants see: "*Power Segment Overview – Wind Power Generation Business- Ventika*".

Loan agreement with certain related parties. In December 27, 2016, the Company obtained two loans from its non – consolidated affiliates: USD$70 million from Inversiones Sempra Latin America and USD$20 million from Peruvian Opportunity Company, S.A.C. The loans are U.S. Dollar denominated, term is twelve months and may be extended for an additional four – year period. The Company used the proceeds to fund its working capital needs, investments and for general corporate purposes.

Market – making services agreement. In December 2016, the Company announced the end of the market making services agreement with Credit Suisse Mexico.

Revolving credit line for USD$1,170 million. In November 2016, the revolving credit facility agreement was amended to increase the available amount from USD$600 million to USD$1,170 million. The funds were used as working capital, investments and other general corporate purposes.

Global equity follow-on. On October 13, 2016, IEnova carried out a global offering of shares, consisting of a subsequent public offering of shares in Mexico and a private offering of shares in the international markets. The company's proceeds from the global offer amounted to approximately MXN$30.4 billion (approximately USD$1.6 billion) considering the exercise of over-allotment and additional placement options. The total ordinary shares sold in the offers amounted to 380,000,000. After having exercised the over-allotment and additional placement options, floating capital represents approximately 33% of IENOVA's outstanding ownership interest. Total proceeds from the common stock follow-on offering, net of expenses, were USD$1.57 billion.

Judgment in Criminal Litigation. In 2009, the Attorney General's Office of the State of Baja California, at the request of Ramón Eugenio Sanchez Ritchie, initiated an investigation against Sempra Energy, Energía Costa Azul and several officers and advisors of the Company. In October 2016, the District Judge decided to dismiss the "*amparo*" suit filed by Sanchez Ritchie. This resolution can still be reviewed by a higher court.

Gasoductos de Chihuahua Acquisition. On September 21, 2016, the Mexican Federal Economic Competition Commission authorized and approved the Company's acquisition of 50% of the capital stock of Gasoductos de Chihuahua, and on September 27, 2016, the Company acquired the remaining 50% equity interest in Gasoductos de Chihuahua from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness. GdC acquisition was approved by the Extraordinary Shareholders' Assembly of September 14, 2015. As a result of the GdC Acquisition, the Company increased its indirect equity interest in Gasoductos de Chihuahua from 50% to 100%. The GdC Acquisition excluded Gasoductos de Chihuahua's subsidiary Ductos y Energéticos del Norte, which participates in the ownership of the Los Ramones Norte pipeline through the TAG Pipelines Norte joint venture, and as a result the Company holds a 50% equity interest in Ductos y Energéticos del Norte (DEN). Through DEN's interest in 50% of the TAG Pipelines Norte joint venture, the Company holds a 25% indirect interest in the Los Ramones Norte pipeline.

Clean Energy Auction. In September 2016, the Company was awarded two projects, the Rumorosa Solar project and the Tepezalá II Solar project, as a result of the Company's bids in this auction. The Company intends to develop, build and operate the approximately 41 MW Rumorosa Solar project near Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW Tepezalá II Solar project will be located in Aguascalientes and will be developed by the Company and Trina Solar, (NYSE: TSL) a company involved in the photovoltaic solar panel and solar energy optimization system industries, through a joint venture in which the Company will have a 90% interest. Both projects will include long-term contracts (20 years for the clean energy certificates and 15 years for the capacity and energy agreements) with the Mexican Federal Electricity Commission, principally denominated in U.S. Dollars. The Company estimates that the commercial operation date for both projects will occur during the second quarter of 2019 and that total investment for these projects will be approximately USD$150 million. The company considers that both projects represent expansion opportunities in Mexico, and in the United States in the case of the Rumorosa Solar.

South of Texas – Tuxpan Pipeline (Gasoducto Sur de Texas – Tuxpan). On June 2016, the Company through Infraestructura Marina del Golfo, S. de R.L. de C.V. ("IMG"), a joint venture between TransCanada, through its subsidiary Infraestructura TCEM, S. de R.L. de C.V., which holds a 60% ownership, and the Company, through its subsidiary Ductos e Infraestructura Marina, S. de R.L. de C.V., which holds a 40% ownership, entered into a service agreement with CFE for the transportation of natural gas, for a 25 year term. The Company refers to this project as Pipeline South of Texas – Tuxpan, a marine pipeline. Pursuant to the agreement, IMG is responsible for the development, engineering, procurement, construction, operation and maintenance of the 42-inch pipeline, with a capacity of 2,600 MMcfd (27 MMThd), and a length of approximately 800 kms. The Company and TransCanada have agreed, that based on each of their stockownership, each party will facilitate financing and guarantees to the suppliers and counterparties of IMG, including CFE and Mitsui & Co, Ltd., among others, in connection with the development of the gas pipeline. The Company foresees that the Sur de Texas – Tuxpan pipeline will start operating in the fourth quarter of 2018. The Company estimates that the Sur de Texas – Tuxpan pipeline will require an investment of approximately USD$2,100 million, from which the Company will assume USD$840 million (in proportion to its stockownership).

Empalme Lateral Pipeline. In May 2016, the Mexican Federal Electricity Commission awarded the Company a 21-year firm transportation services contract with respect to a 20-inch natural gas pipeline with capacity of 226 MMcfd (2.4 MMThd) that will run approximately 20 km between Empalme and Guaymas. The Company's contract with the Mexican Federal Electricity Commission will cover 100% of the base capacity of this pipeline. The pipeline will be based in Sonora, and will connect with Sonora pipeline project in Guaymas. The Company expects to begin commercial operations of this pipeline in the second quarter of 2017. The Company estimates the capital expenditures for the Empalme Lateral pipeline to be approximately USD$12 million.

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

Inclusion in the Sustainability Index of the Mexican Stock Exchange. In February 2016 and 2015, the Company was 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

The Company is the first private sector publicly-traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its footprint in Mexico ranges across several business lines encompassing a significant portion of the Mexican energy infrastructure value chain that is open to private investment. The Company has investment grade from the main rating agencies.

The Company's assets are divided between two business segments: (1) gas segment, which includes natural gas and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, LNG storage and ditribution of natural gas; and (2) power segment, which includes power generation by Termoeléctrica de Mexicali power plant, a natural-gas-fired, combined-cycle power generation facility, and wind power generation facilities Energía Sierra Juárez and Ventika. The Company's assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties. In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2016, 2015 and 2014 are presented in the Consolidated Statements of Profit and Loss as discontinued operations; and the assets and liabilities of Termoeléctrica de Mexicali were reclassified to the current in the line of assets held for sale and liabilities related to assets held for sale, in the Consolidated Statements of Financial Position.

As a result of changes to Mexican gas regulation in 1995, the Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990's. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 21 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through greenfield development, organic growth, acquisitions and a diversified customer base), investing approximately USD$7.0 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

In October 2012, the Company was awarded two 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.

In December 2012, the then joint venture 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 238 MMcfd (4.2 MMThd), to transport ethylene from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz to Ethilene XXI, the ethylene and polyethylene polymerization facility in the State of Veracruz. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

In July 2013, the then joint venture 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. The

Company has 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. The joint venture with Pemex agreed to develop the Los Ramones Norte pipeline through a joint venture with a Pemex affiliate and TETL, which the Company refers to as the TAG Pipelines Norte joint venture, in which Gasoductos de Chihuahua holds a non-controlling interest. In addition, the TAG Pipelines 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 the Company was awarded a natural gas transportation services agreement by the Mexican Federal Electricity Commission, pursuant to which the Company is constructing 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.

In July 2015, Mexican Federal Electricity Commission awarded the company a 25-year transportation service agreement for the San Isidro – Samalayuca natural gas pipeline of approximately 23 km, a compression station and a distribution head with a capacity of 3,000 MMcfd (31.2 MMThd) that will serve as an interconnection point for other pipeline systems. This pipeline has an installed transport capacity of approximately 1,135 MMcfd (11.8 MMThd), and a compression station of 46,000 horsepower. The Company's transportation service contract with CFE includes 100% of the system's installed capacity on a firm basis. The system is located in Ciudad Juárez, Chihuahua, and the start of operations was in March 2017.

In May 2016, Mexican Federal Electricity Commission awarded the company a 21-year transportation service agreement for the Empalme Lateral natural gas pipeline in Sonora. This 20-inch pipeline with a capacity of 226 MMcfd (2.4 MMThd) and of approximately 20 km will be located between Empalme and Guaymas, where it will be connected to the Sonora natural gas Pipeline. Pursuant to this agreement, the Company will be responsible for the development, engineering, procurement, construction, operation and maintenance of the pipeline. The Company expects Empalme Lateral natural gas Pipeline to start operations during the second quarter of 2017.

In June 2016, Mexican Federal Electricity Commission awarded the company, through IMG, a 25-year transportation services agreement for the South of Texas – Tuxpan natural gas pipeline. This 42-inch pipeline with a capacity of 2,600 MMcfd (27 MMThd) and a length of approximately 800 km. The Company expects South of Texas – Tuxpan pipeline will require a total investment of USD$2,100 million from which the Company will assume USD$840 million (in proportion to its stockownership). The Company foresees that the South of Texas – Tuxpan pipeline will start operations during the last quarter of 2018.

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

- The Company was the first private company to be awarded a natural gas distribution contract through a public auction following the 1995 reform of the regulatory framework for the Mexican energy sector; the Company 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);

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

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

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

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

- Through the Company’s joint venture with InterGen, it built and currently operates the first cross-border renewable energy project in Mexico, Energía Sierra Juárez;

- Through the Company’s joint venture with Pemex TRI, it built and currently operates 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 and November 2012, the Company is developing the Sonora pipeline system with an aggregate length of approximately 835 km, comprised of (1) the Sásabe–Puerto Libertad–Guaymas segment with a capacity of 770 MMcfd (8.0 MMThd), which is currently in operation, (2) the Guaymas–El Oro segment with a capacity of 510 MMcfd (5.3 MMThd) and two compression stations;

- Through the Company’s joint venture with Pemex TRI, the Company developed the Guadalajara LPG terminal with a combined capacity of 80,000 Bbl (4.4 MMThd) divided among four storage tanks, each with approximately 20,000 Bbl (1.1 MMThd) of capacity, which began operations in 2013;

- The Company developed, jointly with Pemex TRI, the approximately 116 km, 48-inch diameter Los Ramones I pipeline with 2,100 MMcfd (21.8 MMThd) of capacity and two compression stations. The pipeline began operations in December 2014;

- The Company developed, jointly with its TAG Pipelines Norte joint venture, 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. The pipeline began operations in February 2016;

- Pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in December 2014, the Company is building the approximately 220 km, 42-inch diameter Ojinaga–El Encino pipeline with a capacity of 1,356 MMcfd (14.1 MMThd). The Company expects to begin operations in second quarter of 2017;

- Pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in July 2015, the Company is operating the approximately 23 km San Isidro–Samalayuca pipeline with a capacity of 1,135 MMcfd (11.8 MMThd), which includes a compression station. The pipeline started operations in March 2017;

- The Company began developing the Empalme Lateral, an approximately 20 km natural gas transportation system with a capacity of approximately 226 MMcfd (2.4 MMThd) pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in May 2016. The Company expects to begin operations in second quarter 2017;

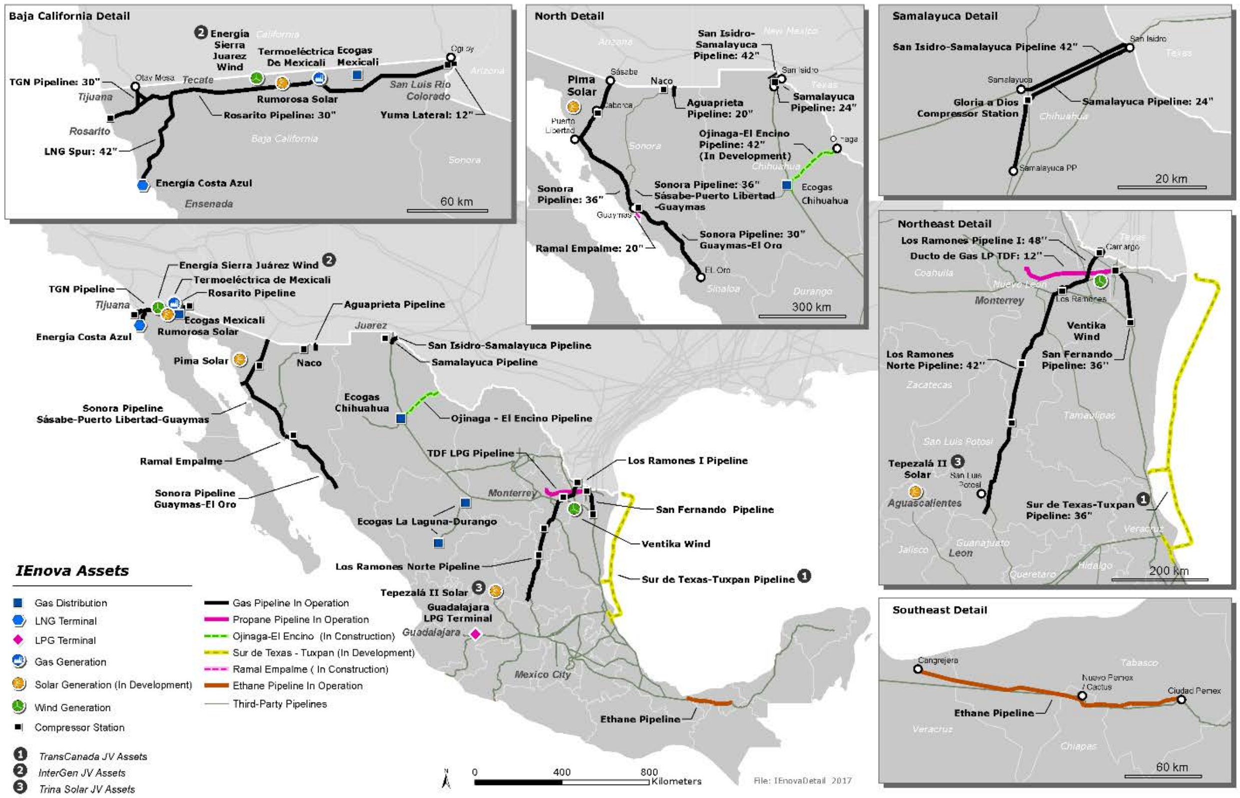
- The Company began developing, through a joint venture with TransCanada, the marine pipeline South of Texas-Tuxpan, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services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

- In September 2016, the Company participated in the second auction for energy, power and clean energy certificates issued by the Mexican National Energy Control Center (Centro Nacional de Control de Energía), or CENACE, in May 2016, with a portfolio of solar energy projects. See "—Recent Developments—Clean Energy Auction." The Company was awarded two projects, the Rumorosa Solar project and the Tepezalá II Solar project, as a result of its bids in this auction. The Company intends to develop, build and operate the approximately 41 MW Rumorosa Solar project near Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW Tepezalá II Solar project will be located in Aguascalientes;

- In December 2016, the Company acquired 100% of the equity interests of Ventika. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. Powered by 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$434.7 million including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. Ventika started operations in April 2016. Substantially, all Ventika's generation capacity is contracted to private companies through 20-year energy supply agreement, U.S. Dollar denominated; and

- In March 2017, the Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DEACERO for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. The company will develop, construct and operate the 110 MW Pima Solar project, with 110 MW. The estimated commercial operations date is the fourth quarter of 2018.

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



Gas Segment

Pipelines and Storage Business

The Company's pipelines business develops and operates systems for receiving, transporting, compressing, storing and delivering natural gas, ethane and LPG throughout the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. These systems (including assets under construction or operated through the Company's joint ventures) feature:

- More than 2,900 km of natural gas pipelines (of which approximately 1,393 km were under construction as of December 2016) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd);
- Ten natural gas compression stations in operation, and four compression stations currently under construction, with an aggregate of over 586,310 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 33 MMcfd (0.6 MMThd) in the first segment; up to 100 MMcfd (1.8 MMThd) in the second segment and approximately 106 MMcfd (1.9 MMThd) in the third segment; and
- LPG storage facility with a total capacity of 80,000 Bbl (4.4 MMTh), located near Guadalajara.

- The Company's current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station, Sonora pipeline (Sasabe – Puerto Libertad – Guaymas section has been completed and Guaymas – El Oro section is estimated to begin operations in second quarter of 2017), Ojinaga– El Encino pipeline (expected to begin operations in second quarter of 2017), San Isidro – Samalayuca pipeline (which started operations on March 2017), Empalme Lateral (expected to begin operations in second quarter of 2017) and South of Texas – Tuxpan pipeline, the joint venture with TransCanada (expected to begin operations in the last quarter of 2018). The Company's pipeline assets also include 100% interest of the assets held by the former joint venture with Pemex TRI, Gasoductos de Chihuahua, in which the Company held 50% interest before September 27, 2016. See the section: "Material Events – Gasoductos de Chihuahua Acquisition". Gasoductos de Chihuahua owns the San Fernando pipeline, Samalayuca pipeline, TDF LPG pipeline, Gloria a Dios compression station, Guadalajara LPG terminal, Los Ramones I pipeline, Ethane pipeline and the joint venture with TAG Pipelines Norte, through DEN, Gasoductos de Chihuahua owns the Los Ramones Norte pipeline, which started operations in February 2016.

- Most of the Company's pipelines and compression stations have entered into long-term firm transportation and/or compression services agreements with major industry participants such as Shell, Gazprom, the Mexican Federal Electricity Commission, InterGen, TransCanada and Center for the Control of Natural Gas as transferee of Pemex TRI. The following is an overview of the existing assets of the Company's 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 the Company's 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, the 42-inch diameter LNG Spur and the 12-inch diameter Yuma Lateral, with a capacity of approximately 534 MMcfd (5.6 MMThd), 2,600 MMcfd (27.0 MMThd) and 190 MMcfd (2.0 MMThd), respectively. The Company has entered into 13 transportation service agreements with the customers of the Rosarito pipelines system, which account for 71% 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 the Company's affiliate San Diego Gas & Electric Company, or SDG&E, and then southwest, ending at the Mexican Federal Electricity Commission's 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. The Company has 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. 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). The Company has 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. The Company has 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 second quarter 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 header, 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, started operations in March 2017.

- *Empalme Lateral pipeline*. In May 2016, Mexican Federal Electricity Commission awarded the company a 21-year transportation service agreement for the Empalme Lateral natural gas pipeline in Sonora. This 20-inch pipeline with a capacity of 226 MMcfd (2.4 MMThd) and of approximately 20 km will be located between Empalme and Guaymas, where it will be connected to the Sonora natural gas Pipeline. Pursuant to this agreement, the Company will be responsible for the development, engineering, procurement, construction, operation and maintenance of the pipeline. The Company expects Empalme Lateral natural gas Pipeline to start operations during the second quarter of 2017, with a total investment of approximately USD$12 million.

- *South Texas – Tuxpan pipeline*. In June 2016, Mexican Federal Electricity Commission awarded the company, through IMG, a 25-year transportation services agreement for the South of Texas – Tuxpan natural gas pipeline. This 42-inch pipeline with a capacity of 2,600 MMcfd (27 MMThd) and a length of approximately 800 km. The Company expects South of Texas – Tuxpan pipeline will require a total investment of USD$2,100 million from which the Company will assume USD$840 million (in proportion to its stockownership). The Company foresees that the South of Texas – Tuxpan pipeline will start operations during the last quarter of 2018.

- *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 El Caracol compression station in Reynosa to Los Indios compression station in San Fernando, in the State of Tamaulipas. CENAGAS, as transferee of Pemex TRI is the sole customer of the San Fernando pipeline and also purchases the system's unused compression capacity on an as-needed basis pursuant to an interruptible transportation services agreement.

- *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. The Company has entered into 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 the Company 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. The Company has 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 system is comprised of a 48-inch diameter pipeline with an approximate length of 116 km and two compression stations with a total of 123,000 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. CENAGAS, as transferee of 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 Ethilene XXI project in the State of Veracruz. Pemex TRI, 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. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

- *Joint venture with Pemex TRI.* When the Company completed the acquisition of the remaining 50% of Gasoductos de Chihuahua, it excluded DEN, the subsidiary owner of the Los Ramones Norte pipeline, through TAG Pipelines Norte joint venture in which the company maintains a 50% participation. Through the 50% participation in DEN, IEnova will continue holding an indirect 25 percent ownership interest in Los Ramones Norte pipeline.

- The Los Ramones Norte pipeline. This natural gas 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, owner of Los Ramones Norte pipeline through TAG Pipelines Norte joint venture.

- *LNG Business*

  - The Company's 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 the Company's customers' LNG, regasifies this LNG and delivers the resulting natural gas to the Rosarito pipelines system, which has delivery capabilities in the State of Baja California and the United States. The Company's 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 m^3 (73.3 MMTh) in two tanks, each of 160,000 m^3 (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).

  - The Company's 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 its subsidiary IEnova Marketing. 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 Marketing (50%). IEnova Marketing's obligations to the LNG terminal are guaranteed for up to USD$282.0 million by the Company's 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. The Company's 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 Marketing generates revenues by purchasing LNG for storage and regasification in the Company's LNG terminal, and selling natural gas pursuant to natural gas supply contracts covering 100% of its LNG terminal natural gas send-out capacity. IEnova Marketing 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 the Company's Termoeléctrica de Mexicali power plant and other customers. If Sempra Natural Gas does not deliver LNG to IEnova Marketing pursuant to their long-term LNG supply contract for reasons other than an event of force majeure, it indemnifies IEnova Marketing 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 3,757 km in length, this system currently serves over 119,000 industrial, commercial and residential customers.

  - This business generates revenues from service and distribution fees charged to its customers through monthly invoices. The purchase price the Company pays for natural gas is based on international price indexes and is passed through to its customers. However, the Company enters into hedging transactions with respect to these prices to reduce potential volatility in the price for natural gas that its customers ultimately pay. The service and distribution fees charged by the ECOGAS system are regulated by the CRE, which performs a review of rates every five years and monitors prices charged to end-users. The current structure of natural gas prices minimizes the market risk to which the Company is exposed, as the rates are adjusted regularly based on inflation 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 49% 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 91% of the systems' throughput volume and 51% of its profit margin. The Company has entered into long-term supply agreements with some of its commercial and industrial customers, in which the Company may negotiate rates below the maximum regulated rate in exchange for long-term, minimum-purchase commitments.

- For the years ended December 31, 2016, 2015 and 2014, gas segment had revenues of approximately USD$712 million, USD$526 million and USD$598 million, respectively, which accounted for 99%, 86% and 81% of the Company's total consolidated revenues, respectively, and an adjusted EBITDA of USD$485 million, USD$367 million and USD$301 million, respectively, which accounted for 96%, 94% and 89% of the Company's total adjusted EBITDA, respectively. Revenue figures do not include the Company's share of profits of its joint venture with Pemex TRI, which the Company accounts for using the equity method, which in the years ended December 31, 2016, 2015 and 2014 was USD$42 million, USD$41 million and USD$25 million, respectively. However, the adjusted EBITDA for gas segment includes the Company's 50% share of the EBITDA from this joint venture.

Power Segment

- *Natural Gas Fired Power Generation Business*

    - The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The plant, which commenced commercial operation in June 2003, receives natural gas through a connection with the Rosarito pipelines system, which allows it to receive regasified LNG from the Company's 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 the Company's 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 the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. As a result, beginning in 2016 the results of Termoeléctrica de Mexicali will be included in the Company's consolidated statements of profit under "Discontinued operations."

- *Renewable Sources Power Generation Business*

    - Through its joint venture with InterGen, the Company owns 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 SDG&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 the Company's U.S. affiliate SDG&E pursuant to a 20-year electricity purchase agreement.

- In September 2016, the Company participated in the second auction for energy, power and clean energy certificates issued by the Mexican National Energy Control Center (Centro Nacional de Control de Energía), or CENACE, in May 2016, with a portfolio of solar energy projects. The Company was awarded two projects. The Company intends to develop, build and operate the approximately 41 MW "Rumorosa Solar" project near Energía Sierra Juárez wind farm in Baja California. The approximately 100 MW "Tepezalá II Solar" project will be located in Aguascalientes. The Company estimates that total investment for these projects will be approximately USD$150 million.

- In December 2016, the Company acquired 100% of the equity interests of Ventika. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. Powered by 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The price paid was USD$434.7 million including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. Ventika started operations in April 2016. Substantially, all Ventika's generation capacity is contracted to private companies through 20-year energy supply agreement, U.S. Dollar denominated.

- For the years ended December 31, 2016, 2015 and 2014, power segment did not have significant revenues due to the TDM classification as discontinued operation and the recognition of 17 days of operations of Ventika wind generation facilities by approximately USD$3 million. Adjusted EBITDA of approximately USD$19 million, which accounted for 4% of the Company's total adjusted EBITDA for the year.

- Since 1995 the Company has invested approximately USD$7.0 billion in Mexican energy infrastructure across the Company's business segments, including acquisitions and investments through joint ventures; and continues pursuing various growth opportunities (such as the Ojinaga–El Encino pipeline and Empalme Lateral pipeline, which are currently under construction.

Seasonality

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

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

iv) Principal Customers

LNG terminal customers and contracts

The Company's 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 the subsidiary IEnova Marketing. Each of the customers must pay for its full contracted LNG storage capacity, natural gas send-out capacity and nitrogen facility capacity regardless of whether it actually delivers LNG to the terminal. Customers also pay the Company variable usage charges and fuel in-kind charges based on their actual use of the LNG terminal and the nitrogen facility. Customers maintain ownership of the LNG they store at LNG terminal and the natural gas that the Company delivers to the Rosarito pipelines system on their behalf.

The Company's 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 USD$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 USD$85.3 million, and the obligations of IEnova Marketing are currently backed by a financial guarantee from Sempra Energy, the Company's indirect controlling shareholder, in the amount of USD$282 million. The amount of credit support required for Shell decreases over the life of the contract. The Company's customers have also contracted for 100% of the firm nitrogen facility capacity of 12 MMcfd.

The Company's firm storage services agreements with the customers of its 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 the Company's LNG storage permit and may be amended from time to time by its LNG business. For a description of the legal framework for the regulation of the natural gas storage services, see "Regulation, Permits and Environmental Matters – Regulation of The natural Gas Business – Storage Terms and Conditions."

Currently, 100% of the terminal's storage and send-out capacity is contracted on a firm basis by Shell and Gazprom (50%), and by IEnova Marketing (50%). The Company believes that the size and creditworthiness of these global energy companies serve to enhance the security and predictability of the Company's LNG terminal's future cash flows. The Company's 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 the Company expands its LNG terminal's capacity, the Company is required to conduct an open season process to allow any potential customer to contract for the additional capacity. Based on current market conditions, the Company does not anticipate any near-term expansions of the terminal's capacity.

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

The Company is 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. The Company's agreement with Shell also provides that if it fails to pay the required termination fee, Shell will have the right to purchase the Company's 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 the Company's subsidiary IEnova Marketing it sells natural gas to third parties within Mexico and to the Company's U.S. affiliate Sempra Natural Gas at the Mexico–U.S. border. Currently, the Company has 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 the Company's Termoeléctrica de Mexicali power plant. Through IEnova Marketing the Company has contracted to purchase LNG from Sempra Natural Gas and deliver it to the Company's LNG terminal, where IEnova Marketing has contracted firm capacity for storage and regasification. IEnova Marketing also has firm capacity contracted to transport the resulting natural gas to its customers through the Company's pipelines under long-term contracts. To the extent the Company's supply of regasified LNG is insufficient to meet its obligations to the Mexican Federal Electricity Commission and to the Company's Termoeléctrica de Mexicali power plant, it purchases cover gas from Sempra Natural Gas, which sells the gas to it at rates that make the Company economically indifferent as to whether it purchases cover gas or receive LNG from Sempra Natural Gas.

The Company delivers 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 the Company a fixed monthly fee to cover transportation capacity obligations under a transportation agreement between IEnova Marketing and 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 The Company's U.S. Affiliate

As described above, the Company purchases LNG from its 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 the Company annually. If the Company's U.S. affiliate delivers less than this amount for reasons other than a *force majeure* event, it is required to make payments to the Company to compensate for the fixed capacity costs under IEnova Marketing's agreements with the LNG terminal and the Company's pipelines business. In January 2013, the Company terminated the prior agreement under which it purchased LNG from Sempra Natural Gas and replaced it with a new long-term LNG sale and purchase agreement with Sempra Natural Gas. While the material terms of the new agreement are substantially similar to those of the prior agreement, it does differ in two material respects. First, the new agreement provides that Sempra Natural Gas will make a limited number of LNG cargoes available to the Company for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the terminal such that the terminal can remain continuously operational. Second, the new agreement corrected unintended economic consequences that resulted in larger payments being made by Sempra Natural Gas to the Company under the prior agreement when the number of cargoes delivered annually under the prior agreement was substantially lower than had been anticipated when the prior agreement had been entered into. This new LNG purchase and sale agreement with Sempra Natural Gas expires in August 2029. During the years ended December 31, 2016, 2015 and 2014, the Company's U.S. affiliate paid to the Company approximately USD$102.0 million, USD$101.0 million and USD$90.8 million, respectively, as indemnification for the delivery of an amount of LNG lower than agreed.

In turn, the Company's U.S. affiliate, Sempra Natural Gas, purchases LNG from suppliers, including pursuant to a long-term contract with the Tangguh partners (a consortium of companies that produce LNG in the Tangguh LNG Project in Indonesia) 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 the Company's U.S. affiliate's agreement with the Tangguh partners increases the likelihood that the Company's LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that the Company will be able to satisfy at least some portion of the natural gas customer commitments by selling natural gas that has been regasified at the Company's LNG terminal. The Company's U.S. affiliate's agreement with the Tangguh partners expires in 2029, and the Company is a party to the agreement solely with respect to the scheduling of delivery of LNG cargoes and to coordinate the parties' rights with respect to the use of the Company's marine terminal.

For the year ended December 31, 2016, 2015 and 2014, each of Sempra Generation, Sempra Natural Gas, the Mexican Federal Electricity Commission and Shell accounted for more than 10% of the Company's 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, the Company's 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 the Company's 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.

The Company is subject to Mexican legislation governing the following principal midstream and downstream natural gas, LPG and Ethane activities:

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

b) **Regasification:** Includes the process by which natural gas in liquid form changes to gaseous form.

c) **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.

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

e) **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. The Company's 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 its permits. See "Risk Factors – Risks Relating to The Company's business and Industry – The Company cannot predict the potential effects on the Company's business of the new legal framework for regulating the energy sector in Mexico."

Building and operating hydrocarbons 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" to which the licensees and users of the service are subject.

Regulation of The natural Gas, LPG and Ethane Business

Article 27 of the Mexican Constitution sets forth the general principles that regulate activities involving petroleum and other hydrocarbons in Mexico. 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 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.

i) 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 hydrocarbons, and to 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 and liquefied 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, the Company’s operations may make it necessary for the Company 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.

Likewise, the Hydrocarbons Law allows private sector companies to store, transport, distribute, sell directly and market petroleum products, including LPG, as well as import and export petroleum products. These permits are issued by the Energy Regulatory Commission and the Energy Ministry. Permits granted prior to the entry into force of the Hydrocarbons Law, such as the Company's permit for the LPG terminal in Guadalajara and the LPF gas transportation pipeline called TDF, will remain in full force during the term of its validity.

In addition, under the Natural Gas Regulations (on which some of the Company’s permits were based but was repealed by the Hydrocarbons Law and its regulations), there were two types of natural gas storage and transportation permits: open access (to provide services in a similar fashion as public utilities) and own use (granted exclusively to end users or a group of end users organized under a specific purpose vehicle or company, whose systems or facilities do not provide services to third parties). All of the Company’s pipelines and its LNG Terminal are open access facilities while the Company’s Termoeléctrica de Mexicali power plant is serviced by an own use pipeline. The operations of these pipelines and facilities are governed by the Company’s existing permits and are subject to oversight by the Energy Regulatory Commission. Under the Hydrocarbons Law, distribution, transportation and storage systems that provide services to third parties are subject to open access obligations. Similar to the terms of the Natural Gas Regulations, such entities must grant reasonable open access to any user that requests service, provided there is sufficient capacity in the system or facilities, the service is technically and economically viable, and the parties reach a suitable agreement in accordance with what is established in the general rules issued by the Energy Regulatory Commission. Permit holders subject to open access obligations are strictly regulated and supervised by the Energy Regulatory Commission. Despite the early stage of the process, the Company does not currently believe that the Hydrocarbons Law will have relevant impacts on its LNG terminal and open access pipelines.

Natural gas transportation, storage, distribution, marketing and other activites; except for the sale to the public of LPG, gasoline and diesel which are subject to market conditions; are subject to maximum regulated tariffs, 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.

The Hydrocarbons Law requires that natural gas marketing companies obtain a permit from the Mexican Energy Regulatory Commission. As a result, the marketing activities carried out by IEnova Marketing are now subject to permission. In compliance with the Hydrocarbons Law and other applicable legal provisions, IEnova Marketing has obtained the permits required by the Energy Regulatory Commission to carry out natural gas commercialization activities. 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. The Company anticipates that the new regulations will not affect the Company's operations for so long as its 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.

According to these rules and what is established in the Regulations Relating to the Activities Specified in Title Three of the Hydrocarbons Law, permit holders subject to open access obligations that have available capacity must conduct open seasons to assign this capacity to third parties. There is considered to be available capacity when: (i) a new system is developed; (ii) the capacity of an existing system is expanded either through operating efficiencies or infrastructure expansion; (iii) existing capacity has not been assigned under service agreements or having been contracted by a third party is not used; or (iv) the end user temporarily or permanently transfers the contracted capacity through the permit holder.

ii) 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 the Company's 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 gas storage permits:

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

b) Access to available storage capacity. The Company is required to provide customers with reasonable access to the available storage capacity at its LNG and LPG terminals 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 the Company's 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.

c) 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. The Company's firm storage services may not be subject to reductions or interruptions, with exceptions specified in the storage terms and conditions and the relevant agreement.

d) Interruptible storage services. Interruptible storage services consist of storing LNG or LPG up to the maximum storage quantity specified in the relevant services agreement. The Company's 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.

e) 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 the Company's consent.

f) Creditworthiness. Customers must be solvent or provide evidence of creditworthiness within 30 days after the Company's 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.

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

h) Sales and others. The Company is not obligated to execute a services agreement at a lower rate than the regulated rate.

i) 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.

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

k) 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 the Company's 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.

l) The Company's liability to customers is limited to damages suffered directly as a result of the Company's failure to perform its obligations under a storage services agreement (suspension or interruption of delivery of LNG or LPG at the point of delivery). In the case of the LNG terminal, 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.

m) *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 its LNG or LPG terminals, the Company's customers' obligation to make storage capacity payments under the services agreement will be suspended or, if applicable, reduced pro rata for the level of storage services provided. The Company may also suspend, restrict or modify deliveries of gas to customers to the extent affected by such event.

n) 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.

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

p) Dispute resolution. Any dispute will be resolved through arbitration.

q) 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 the Company and is subject to the creditworthiness requirements.

r) Interconnection criteria. The Company is required to allow any entity to connect to its 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.

iii) Transportation Terms and Conditions

The natural gas transportation terms and conditions, LPG and Ethane transportation terms and conditions, which are self-executing provisions that constitute an integral part of the natural gas, LPG and Ethane transportation permits, govern service agreements for the transportation through pipelines of natural gas, LPG and Ethane. The transportation terms and conditions must be approved by and registered with the Mexican Energy Regulatory Commission.

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

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

b) Increase of capacity. In the event that requests for transportation services exceed the Company's pipelines' available capacity, is must build additional facilities to increase the Company's pipelines' available capacity to fulfill such requests if technically and economically viable and according to the applicable law.

c) Transportation services agreements. The Company may only render 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. The Company enters into agreements after a full analysis of the requests for services received from potential customers.

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

e) Creditworthiness. Under the transportation terms and conditions, the Company is not obligated to provide transportation services to customers with outstanding balances with the Company or impaired creditworthiness.

If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee securing their obligations under their gas transportation services agreements.

f) Assignment. Contracted pipeline capacity may be temporarily or definitively assigned with the Company's prior written consent, provided that the assignee complies with the transportation terms and conditions, including providing a required guarantee.

g) Payment. If customers breach their payment obligations, the overdue amounts accrue interest at a daily rate calculated pursuant to the transportation services agreement terms and conditions. Failure to pay two or more consecutive invoices or of three non-consecutive invoices within a year, entitles the transporter to suspend the service and terminate the agreement.

h) Interruption of services. The terms and conditions under most of gas transportation permits specifically provide that the Company is not liable for the interruption of transportation services due to f*orce majeure*, failure of a customer's facilities, required maintenance or adjustments in the Company's facilities, or breach of the customer's obligations. Pursuant to the terms and conditions included in some of 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, the Company is 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.

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

j) 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.

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

l) 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.

m) Rates. The Company is 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. The Company must publish its rates annually in the Mexican Official Gazette and in the official gazettes of the states in which the Company provides transportation services.

iv) 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 the natural gas distribution permits, govern the reception, delivery and marketing of natural gas. The distribution terms and conditions for each of the regions the Company serves must be approved by and registered with the Mexican Energy Regulatory Commission as part of the distribution permit for that region.

Although the terms and conditions for each of the 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 gas distribution permits:

a) Services. The Company provides firm and interruptible distribution services by delivering natural gas to its customers at different delivery points in the distribution systems. In the event the Company must interrupt, restrict or modify its services, the Company's firm services will have priority over interruptible services. In the event of a service interruption without cause, the Company must provide to its customers with compensation in an amount equal to five times the amount of service that would have been available during the interruption period based on the average consumptions and prices in the previous invoice.

b) Interconnection. After expiration of the exclusivity period granted to the Company by the Mexican Energy Regulatory Commission for each geographic region, the Company must allow other concessionaires to connect to the Company's pipeline system as long as the Company has sufficient available capacity and if such connection is technically and economically viable. Currently, the interconnection rates are determined by agreement between the Company and the other concessionaire.

c) Rates. The Company is 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. The Company must publish its rates annually in the Mexican Official Gazette and in the official gazettes of the states in which the Company provides distribution services.

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

e) Security deposit or other guaranties. In order to establish their creditworthiness the Company's customers must (1) provide a security deposit in an amount equal but not more than two 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.

f) Safety obligations. The Company 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 the Company has taken to address the relevant issue. All of the Company's equipment, materials and systems must comply with the specifications set forth in Mexican Official Standards or, absent any such standard, with international industry standards. The Company must provide training to its 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, the Company must obtain and maintain liability insurance in the amounts specified in its permits.

g) Liability. The Company will be liable for any damages caused as a result of the provision of its 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.

h) Interruption of services. The Company may interrupt its services without liability (1) if the Company determines 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. The Company may also suspend a customer's service if the customer has two or more invoices outstanding.

In addition, the Company 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 the Company has given notice of the relevant issue to the custormer, or (4) the customer's default with its obligations under its services agreement with the Company.

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

j) 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.

v) Energy Regulatory Agencies Law

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

vi) Natural Gas Regulations

Two Hydrocarbon Law Regulations were enacted on October 31, 2014: (i) the Regulation of the Hydrocarbons Law and (ii) the Regulation of the activities referred to in Title Three of the Hydrocarbons Law. Taking into consideration the activities of the Company, this will be regulated mainly by the Regulations of the activities referred to in Title Three of the Hydrocarbons Law.

The Natural Gas Regulation will continue to regulate Mexico's natural gas market with respect to permits for its own uses, such as the permit for the Company’s Termoeléctrica de Mexicali power plant, which 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 and conditions for the provision of certain services.

A distribution permit allows its holder to distribute natural gas and in certain cases to sell natural gas within a geographic region defined by the Energy Regulatory Commission, taking into consideration the opinion of the 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 one-time 15-year period. However, permit holders may apply for new permits one year prior to the expiration of their existing permits. The Company’s existing distribution permits allows it to service the Mexicali, Chihuahua and La Laguna–Durango markets.

Transporters are not obligated to render transportation services within a pre-defined geographical region whilst transportation permits refer to a specific capacity and route within Mexican territory. Natural gas transportation permits are granted by the Energy Regulatory Commission under a non-exclusive basis and the sole prohibition to directly commercialize the transported hydrocarbons.

Subject to technical and financial viability, providers of transportation, distribution and storage services who are subject to open-access obligations must expand their systems upon receipt of a request by an interest party. Under the former legal framework superseded by the reform (such as the Natural Gas Regulations), in accordance to which the Company obtained most of its current permits, similar obligations were established. As a result, the Company does not expect that these provisions may impact its operations as per its current permits.

Liquified Petroleum Gas Regulations

The Regulations Relating to the Activities Referred to in Title Three of the Hydrocarbons Law also govern liquified petroleum gas activities, including those for transportation, storage, distribution and first-hand sales; all of which are activities that exclusively fall under federal jurisdiction. These activities can be carried out by both public and private sectors, same which are allowed to build, operate and own pipelines and other means to transport, facilities and equipment, subject to the provisions contained in such regulations. Furthermore, general administrative provisions for each of its activities are applicable to LPG.

Reception, deposit and delivery facilities or RDDFs were incorporated as part of a certain reform in 2007. This type of system provides transport permit holders (technically this system operates as an extension of the transportation permits granted by the Energy Regulatory Commission) the opportunity to have a small-scale LPG terminal, strictly for intermediary transportation services such as filling tanks for their transportation.

Nonetheless, the RDDF system is not extensive for the sale of LPG to third parties, neither can it be used for self-supply storage purposes. These activities require specific permits.

Mexican Center for the Control of Natural Gas

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

- management, administration and operation of the Natural Gas Integrated Transportation and Storage System, same which was formerly managed by Pemex;
- monitoring compliance of open-access obligations by permit holders, without limiting its reserved capacity rights;
- transportation and storage services previously provided directly by Pemex, and the transfer to CENAGAS of all transportation and storage systems used for public services formerly owned by Pemex, and
- managing the reserved capacity agreements between Pemex and the Federal Electricity Commission.

As a result, the Company 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 the Company's infrastructure, which is part of the Mexican Natural Gas Integrated Transportation and Storage System. Furthermore, the Company's 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 the Company's 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 the Company's 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.

Other Authorities

The Federal Antitrust Commission, constitutional organism with autonomy, has joint jurisdiction with the Company's primary regulators on matters pertaining to the prevention and elimination of monopolistic practices and business concentrations in the natural gas and LPG markets. The Federal Antitrust Commission, with the prior approval of the Energy Regulatory Commission, is authorized to issue regulations aimed at fostering the development of competitive markets in the 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, LPG and Ethanol systems requires various other permits and/or licenses, including, among others, environmental permits, social impact authorizations, land use 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 remediate contaminated sites, has been delegated to the newly created ASEA, which is a de-concentrated agency with technical and management autonomy, of the Ministry for the Environment and Natural Resources. The new Agency is also authorized to perform inspections and impose penalties for safety and environmental violations. It began its activities, including granting of permits, in March 2015.

Other applicable laws and regulations

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

Regulation of Power Generation Business

The December 2013 amendment of the provisions of the Mexican Constitution relating to the energy sector, and the entering to effect of the new Law for the Electricity Industry, which repealed and replaced the Law for Power Utilities, allowed private companies to engage in the construction, operation and maintenance of power plants and apply for permits to generate, supply and commercialize electricity, power and clean energy certificates in the Mexican wholesale market or by means of bilateral agreements. The transmission and distribution of electrical power remains reserved to the Mexican government, through the Federal Electricity Commission or other state-owned entities, which may enter into contracts with private companies to such effect, including financing arrangements and contracts for the installation, maintenance, operation and expansion of components of the Mexican power grid through public-private associations. The Mexican government, through CENACE -a governmental entity charged with the management of the national power grid and who will act as an independent operator in the Wholesale Electric Power Market- has exclusive control over the Mexican power grid and all related planning activities.

Pursuant to the Electric Power Market Rules, private electricity producers are allowed to participate in the new wholesale market operated by the CENACE through the sale of energy and associated products to CFE as a productive state-owned company, o suppliers or users. Under such market, only companies that turn into 'qualified users' (those registered with the Energy Regulatory Commission and with an annual demand of at least 1 MW and an annual consumption of energy of at least 12GWh) may purchase electricity and other related products through long term power coverage agreements or in the spot market, either with the CFE or third parties.

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

Permits granted prior to the enactment of the Law for the Electricity Industry (including the export permit granted to the Company's Termoeléctrica de Mexicali power plant in 2001 and the export permit granted to the Company's Energía Sierra Juárez wind power generation project in 2013 and the self-supply permit granted to

Ventika), remain in full force and effect and the rights vested on its holders are not affected by the new regulatory framework.

Pursuant to the Law for the Electricity Industry and its regulations, certain obligations regarding the use of clean energy (seeking to reduce emissions into the atmosphere) are applicable to participants in the wholesale market. Among those participants are power suppliers, ‘qualified users’, ‘final users’ which power source is that of the self-supply and the loading centers covered by grandfathered interconnection agreements. Clean energy certificates or CELs, which will prove the use of clean energies, will be required from 2018, based on the actual consumption percentages established by the Energy Ministry on an annual basis, which are subject to annual increase, starting at 5% in 2018 and 5.8% in 2019.

As of 2018, CELs will be awarded to clean power producers; each producer being entitled to one CEL for each Megawatt hour of clean energy produced at their facilities (such as wind and solar farms and geothermal and cogeneration plants). CELs may be commercialized in the spot market through long term coverage agreements in the wholesale market or by means of private coverage agreements entered between participants in the market.

On December 24, 2015, the LTE was enacted. The purpose of this new law, which repeals the previous renewable energy law, is to regulate the use of sustainable energy and establish obligations related to clean energies and the reduction of emissions into the atmosphere by the electric industry. Conversely, the Mexican government must implement strategies and programs allowing the achievement of specific clean energy targets, same which as of today provide for 25% of the electricity in Mexico to be generated from clean sources by 2018; 30% by 2021 and 35% by 2024. The national targets set forth in the LTE planned to be achieved through the implementation of diverse mechanisms, including voluntary agreements between private entities and SENER, awarding of voluntary certificates and the referred obligation to use clean energy and acquire CELs.

Because of being interconnected to the network controlled by California Independent System Operator (CAISO), Termoelectrica de Mexicali Power Plant and Energía Sierra Juárez wind power generation facility are subject to the electricity reliability standards established by the North American Electric Reliability Corporation and WECC pursuant to Section 215 of the Federal Power Act.

Regulations applicable to the sale of electricity in the United States are extensive to that exported by the Company’s Termoeléctrica de Mexicali power generation facility and the Company’s Energía Sierra Juárez wind generation project. 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.

The Company’s Termoeléctrica de Mexicali power generation facility and its Energía Sierra Juárez wind generation project are subject to the U.S. Public Utility Holding Company Act of 2005, or PUHCA 2005. Under PUHCA 2005, 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 2005, 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 2005. 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 2005), (EWGs, for its acronym in English: Exempt Wholesale Generator), or (3) “foreign utility companies,” as defined in PUHCA 2005. In addition, FERC regulations provide that an EWG is exempt from FERC regulation under PUHCA 2005, other than the procedures for obtaining EWG status. 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.

i) 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. The Company is 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.

ii) Mexican Law for the Protection of Personal Data

The Company is 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.

iii) Mexican Ports Law

As a holder of a concession for the use and occupation of a federal maritime zone for the construction and operation of a maritime terminal for the Company's LNG Terminal, including a dry dock and ancillary maritime infrastructure, the Company is 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, the Company's concession may be revoked in certain circumstances, including if the Company does not comply with its obligations under its permits or upon the partial or total suspension of operations of its systems or facilities without cause.

iv) 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 the Company's 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.

v) 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.

vi) 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 the Company does not expect these amendments to have a material impact on us, the Company cannot predict with any degree of certainty the potential effects of their enforcement.

vii) Recent Developments in the Single Circular for Issuers

On September 29, 2015, the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) through the Tax Administration Service, published the Fourth Resolution of Amendments to the Tax Resolution on Miscellaneous Matters for 2015, in which new regulation was included in order to create a new type of vehicle, attractive from a tax point of view, for the securities market. Said vehicle is similar to the master limited partnerships or MLP's that have been used in the United States with respect to certain energy assets. The aforesaid Resolution was amended on December 23, 2015, through the Tax Resolution on Miscellaneous Matters for 2016, and on April 1, 2016, through the First Resolution of Amendments to the Tax Resolution on Miscellaneous Matters for 2016. The aforesaid vehicle is known as "FIBRA E".

Generally, investments in FIBRAs E (where FIBRA stands for Energy and Infrastructure Investment Trust) will allow said companies to access capital at lower costs – in comparison con with the traditional financing sources – through the contribution of assets that qualify as hydrocarbon, electricity or infrastructure assets, including pipelines, petroleum and petrochemical storage stations, and that generate stable cash flows. Investments in this type of companies will have certain tax advantages, similar to those of the real estate investment trusts (FIBRAs). For instance, the sale in recognized markets of securities issued by FIBRAs E will be exempt of income tax in Mexico, both for residents abroad with no permanent establishment Mexico, as for individuals that are Mexican residents, such as the current tax rules applicable to FIBRAs. In addition, shareholders of legal entities which are subject to investment of FIBRAs E may defer the of the obtained profit, if any resulting from the sale to FIBRAs E of the shares issued by said legal entities, when in change the same receive Short Term Securities Trust Certificates.

In addition, in a similar manner to the MLPs, FIBRAs E allow the administrators thereof (which are expected to be affiliated to the sponsor) to maintain the control of the FIBRA E and of the corresponding investment vehicles, granting minimum corporate rights to the holders thereof. One technical committee, integrated in its majority by independent members, must be created in order to supervise the administrator and solve any transaction that implies a conflict of interest for the administrator.

FIBRAs E will be subject to minimum requirements on corporate governance, including the disclosure of voting agreements, disclosure of compensation to the administrators, minority rights, and supervision of committees, similar to the committees of the board of directors of publicly held companies (company and auditing practices).

The Company may not guarantee that the same or any of its assets may benefit of any new opportunities deriving from the aforesaid reforms. In fact, the effect of said new regulation may be the increase of competition in the access to capitals, or attracting new competitors in the energy infrastructure assets market, which may difficult the award of new projects with attractive yield for the Company.

Permits

LNG Permits

LNG Storage

The Company operates its LNG terminal under an LNG storage permit granted by the Mexican Energy Regulatory Commission on August 7, 2003. This permit allows the Company to provide LNG storage and regasification services through 2033, and requires the allocation of LNG storage and regasification capacity on a non-discriminatory basis and in accordance with open access principles. In addition, the permit requires that operation and maintenance of the Company's 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 the Company's 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) the Company engages in unduly discriminatory practices or infringe the rates authorized by the Mexican Energy Regulatory Commission, (3) the assignment, transfer, pledge or modification of the permit in violation of its terms, or (4) the Company does not comply with the obligations set forth in the permit.

In October 2007, the Mexican Energy Regulatory Commission approved the expansion of the Company's 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 the Company and approved by the Mexican Energy Regulatory Commission as part of the natural gas storage permit) require an open bidding process in the event that the Company wishes to expand the capacity of its LNG terminal. Based on current market conditions, the Company does not anticipate any near-term expansions of the terminal's capacity.

Power Generation

The Company conducts electrical power generation activities at its LNG terminal under a self-use power generation permit granted by the Mexican Energy Regulatory Commission on February 2, 2005. This permit allows the Company to engage in power generation activities at the terminal for an indefinite term. 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 the Company (1) is repeatedly sanctioned by the Mexican Energy Regulatory Commission for selling, reselling or otherwise transferring the electricity generated in violation of the permit, (2) generates electricity in violation of the conditions established in the permit, (3) assigns, transfers, pledges or modifies the permit without the authorization of the Mexican Energy Regulatory Commission, or (4) otherwise fails to comply with the terms and conditions of the permit.

Transportation Permits

Each of the Company's 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 the Company's 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) the Company engages in unduly discriminatory practices or infringe the rates authorized by the Mexican Energy Regulatory Commission, or (3) the Company assign, transfer, pledge or modify the permit in violation of its terms.

Distribution Permits

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 the

Company's 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

a. Termoeléctrica de Mexicali

The Company's Termoeléctrica de Mexicali power plant holds two power generation permits issued by the Mexican Energy Regulatory Commission. Under the first of these permits the Company is 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 the Company 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 the Company's 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 the Company (1) is 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) assigns, transfers or modifies 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 fails 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.

b. Energía Sierra Juárez

The Company's Energía Sierra Juárez wind powered generation project will be operated in different states during various years. The first stage began in June 2015 and was built pursuant to an environmental impact authorization that covers all the stages of the project. One authorization for the change of land use of forests that covers the first stage (for an area of 171.8 hectares). Both permits were granted by the Ministry of Environment and Natural Resources (Secretaría de Medio Ambiente y Recursos Naturales - SEMARNAT). In addition, the Company obtained an environmental impact authorization that specifically covers the opening and adaptation of the access roads to the project before the Ministry of Environment of the State of Baja California.

The environmental impact authorization granted by SEMARNAT was issued on July 20, 2010. Said authorization permits the development of a wind generation project of up to 1,200 MW and the removal of 5,120 hectares of forest land and preferably forest land. The term of the authorization is of 20 years for the preparation of the site and the construction of the project, and of 60 years for the operation stage.

The Company's Energía Sierra Juárez wind powered generation project will be operated under two electric power generation permits granted in June 2012 by the Energy Regulatory Commission: (1) an electric energy import permit that allows the Company to import electricity to Mexico from the United States for an indefinite term, solely to satisfy the requirements of the wind farm; and (2) a 30-year electric energy export permit that allows the Company to produce up to 155 MW as an independent power producer, which may be renewed upon satisfaction of certain conditions. Under these permits, electricity is imported and exported through a transmission line that interconnects with the East County substation of San Diego Gas & Electric Company. Assignment or transfer of these permits requires the prior approval of the Energy Regulatory Commission. Further phases of the project will also require permits from the Energy Regulatory Commission to generate and sell electricity. The permits are subject to revocation in the event that the Company: (1) has been penalized, repeatedly, by the Energy Regulatory Commission for selling, re-selling, or transferring, in any other manner, the generating capacity or the electric energy in violation to applicable law or the permits of the Company; (2) assigns, transfers, or amends the permits without the prior authorization of the

Energy Regulatory Commission; (3) fails to pay, repeatedly, the governmental charges for the supervision services related with the permits; or (4) fails to comply, seriously, repeatedly or continuously with any applicable law, the Mexican Official Standards or the applicable technical and operative specifications.

c. Ventika Permits

The Ventika I and Ventika II permits for the generation of alternative energy, for self-supply, are for an indefinite term, but due to regulatory changes the same may only exist up to the term of their pre-existing interconnection agreements (contratos de interconexión legados). These permits were granted pursuant to the Electric Energy Law. Pursuant to the terms of the new Electric Industry Law, the self-supply Ventika I and Ventika II permits are ruled by the Electric Energy Law, and as such, allow Ventika I and Ventika II to enter into pre-existing interconnection agreements for up to 20 years. In addition, the nature of these permits grants to Ventika various benefits that may not be available for permit holders of similar projects that were granted under the new Electric Industry Law, such as fixed transmission (porteo estampilla) and energy distribution rates, saving excess energy for future sales (energy bank), among others. The self-supply permits granted under the Electric Energy Law cannot be requested and obtained by the Energy Regulatory Commission.

LPG Storage Permits

The LPG Storage Facility Guadalajara has a permit for the storage of LPG, through a Supply Facility, granted by the Energy Regulatory Commission, on February 13, 2012. The permit is valid for 30 years, expiring in 2042. The permit authorizes the Company to receive and store LPG in a Supply Facility, with a receiving capacity of 42 thousand barrels per day, a storing capacity of 80 thousand barrels per day, for the delivery of 30 thousand barrels per day to other permit holders, on a non-discriminatory basis, under open access principles.

In addition, the permit requires that operation and maintenance of the Supply Facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations. Any modification to the permit requires prior approval from the Energy Regulatory Commission. In addition, transfer of the export permit is only allowed if the permit is transferred together with the corresponding Storage Facility.

The storage permit may be revoked if the Company (1) interrupts the storage services without justified cause or without the authorization of the Energy Regulatory Commission; (2) conducts unduly discriminatory actions or violates the tariffs approved by the Energy Regulatory Commission; (3) assigns, pledges or transfers the permit in contravention to Law; (4) fails to comply with the Mexican Official Standards or the conditions provided for in the Permit; (5) dismantles the facilities or systems; o (6) fails to pay, continuously, the rights for the supervision services of the permit.

Environmental Matters

Applicable Laws and Regulations

The Company's activities are subject to Mexican federal, state and municipal environmental authorities, laws and regulations, as well as 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 hydrocarbon and electric 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, fall under state or local jurisdiction.

The primary federal environmental laws in Mexico that apply to the environmental aspects of the Company's activities are: the Law on Environmental Balance and the Protection of the Environment (Ley General del Equilibrio Ecológico y la Protección al Ambiente), the Law for the Prevention and Comprehensive Management of Waste (Ley General para la Prevención y Gestión Integral de los Residuos), the Law on National Water Resources (Ley de Aguas Nacionales), the Law for Sustainable Forestry Development (Ley General de Desarrollo Forestal Sustentable), the Environmental Liability Law (Ley Federal de Responsibilidad Ambiental) and the Law of National Property (Ley

General de Bienes Nacionales). The Company's activities are also subject to a number of rules and regulations issued under such laws, relating to environmental risks and impact, noise, atmospheric emissions, extraction of water, waste water discharges and waste management, among other matters. The Company's activities may also be subject to other laws, regulations and technical requirements, such as the Health Law (Ley General de Salud) and the 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 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 and, in some cases, temporary or permanent plant closures and, where the relevant environmental violation constitutes a crime, jail, as well as remediation, reparation or indemnity obligations arising from civil or environmental liability.

The Company's projects operate under licenses, permits, authorizations, concessions and registrations granted under the aforementioned environmental laws. The Company believes that it has obtained all material permits, licenses, registrations, concessions and/or authorizations required for the operation of its facilities and projects, and that the Company is in substantial compliance with all applicable environmental laws and with the terms of its permits. Except as described in the sections "Company Activities – Legal, Administrative and Arbitration Proceedings – LNG Terminal – Actions Challenging the Validity of the LNG Terminal Permits and Authorizations" and "Company Activities – 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 the Company.

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

Regulatory and Oversight Authorities

The Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*, SEMARNAT) is the primary agency responsible for environmental policies and management. The SEMARNAT 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 Agency for Industrial Safety and Environmental Protection in the Hydrocarbons Sector (*Agencia de Seguridad, Energía y Ambiente*, ASEA) has assumed a key role in the regulation of environmental matters, and industrial and operational safety in the hydrocarbons sector.

The SEMARNAT has four quasi-autonomous agencies (under the direction of the SEMARNAT which act on its behalf): ASEA, CONAGUA, CONANP and PROFEPA. The ASEA has authority on matters relating to industrial and operational safety, and protection of the environment for the hydrocarbons sector. The Environmental Protection and Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*) is the enforcement arm of the SEMARNAT and is authorized to investigate and inspect facilities (including through the voluntary environmental audit program as described below), impose penalties and rule on administrative appeals against the imposition of penalties for alleged violation of environmental law. The ASEA has been empowered to perform inspections and impose penalties relating to the matters that this agency regulates.

The National 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 public assets, such as rivers, dams and other bodies of water. The National Water Commission is authorized to grant concessions for the use and exploitation of Mexico's national water resources, and occupation of the federal zone under the jurisdiction of this Commission, as well as permits for the discharge of wastewater into water bodies under federal jurisdiction. The National Water Commission has its own enforcement arms which are independent from the Environmental Protection and Enforcement Agency.

Environmental Certificates, Policies and Programs

a. Clean Industry and Environmental Performance Certificates

Several of the Company's operating subsidiaries of Gas and Power segments participate in a separate voluntary environmental audit program outlined by the Mexican Environmental Protection Enforcement Agency, and all of its subsidiaries currently hold clean industry or environmental compliance certificates. The Company expects that its 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, companies are required to undertake biannual environmental audits of their facilities and operations through a duly qualified independent environmental auditor. Based on the findings of each audit, the auditor prepares and recommends to the company a plan of preventive and/or corrective measures and, depending on the requirements of the certification process, submits to the Environmental Protection and Enforcement Agency or to the ASEA, as applicable, 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 Environmental Protection and Enforcement Agency or ASEA, as applicable, enters into an agreement with the audited company to provide for the implementation of the action 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 action plan and conducts its operations in strict compliance with 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 successive like periods, provided 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.

b. The Company's Internal Environmental Policies

The Company conducts 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 the Company developed a separate environmental policy that is applicable to all its employees and contractors and implemented in each of the new projects and in the operation and maintenance of its facilities and processes.

The Company is 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 the Company's various groups of interest. The commitments stated in this policy include:

- Minimizing and managing the environmental impact of the Company's operations and services;
- Managing all resources in a sustainable fashion and improving and monitoring the Company's operating and environmental management processes on an ongoing basis;
- Optimizing the Company's environmental performance in terms of the Company's consumption of water, combustible products and electricity, in accordance with goals and objectives that are reviewed annually;
- 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 its permits;
- Continuous review of operational results and administrative practices, for improvement; and
- Carry out all activities with strict adherence to environmental policies.

The Company often imposes internal standards beyond Mexican regulatory requirements.

c. Environmental Programs for Conservation of Biodiversity

The Company has implemented various environmental programs to conserve biodiversity in both operational and projects under construction, which are aimed at the conservation, protection, restoration and compensation of flora and fauna.

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

vi) Human Resources

EMPLOYEES

As of December 31, 2016, 2015 and 2014, the Company had 883, 639 and 581 employees, respectively, of which 3.5%, 5.8% and 6.3%, respectively, were unionized. The following sets forth the Company's number of full-time employees by type of activity and business segment:

	2016	2015	2014
Activity			
Management	135	82	84
Operations	589	485	429
Construction and engineering	159	72	68
Business Segment			
Gas[(1)]	660	478	425
Power[(2)]	49	58	62
Corporate	174	103	94
Total employees	883	639	581

(1) For the years ended December 31, 2015 and 2014, it excludes, respectively, the 189 and 179 employees employed by the Company's joint venture with Pemex TRI.
(2) For the years ended December 31, 2016, 2015 and 2014, it includes, respectively, the 12, 12 and 17 employees employed by the Company's joint venture with InterGen.

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

Collective Bargaining Agreements

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

vii) Environmental Performance

See "Legal Framework and Taxation."

viii) Market Information

General

In Mexico, the natural gas and electric energy sectors are highly regulated, and include a high level of participation by the Mexican government. In the electric energy sector, the Mexican government owns 100% of the Federal Electricity Commission (CFE) which, until recently, was a decentralized agency of the federal government, responsible for planning Mexico's electricity network and for the generation, transmission, distribution and sale of electric energy. In the natural gas sector, the government owns 100% of PEMEX and its subsidiaries, including Pemex TRI which, until recently, was a decentralized agency of the federal government responsible for, among other activities, the exploration and production of crude oil and other hydrocarbons. The changes in Mexican law in the natural gas and electric energy sectors in the 'nineties created significant investment opportunities for private industry. In December 2013, a new and major legislative change was implemented as the result of amendments to the Constitution. Later, in August 2014, new laws were passed, and certain existing laws underwent changes, creating a new legal framework for the crude oil, gas and electric energy industries in Mexico. The main objective of the reform is to allow PEMEX to focus on profitable exploration and production activities, and to open the doors to private investment in all the segments of the hydrocarbon industry and a substantial number of the segments of the electric energy industry. Both PEMEX and the CFE will continue playing the dominant role in the natural gas and electric energy industries as State-run production companies, under the control and ownership of the federal government, with business, commercial and financial objectives.

The Mexican Natural Gas Industry

Before the recent energy reform, natural gas production was the exclusive preserve of the Mexican government, through PEMEX and its subsidiaries. The liberalization of the natural gas industry began in 1995, when changes in Mexican law facilitated private sector investment in the transportation, storage and distribution of natural gas. Previously, only PEMEX was authorized to build and operate pipelines and transport natural gas. Natural gas distribution was also highly restricted at that time. Since 1995 there has been a significant increase in private sector investment in natural gas assets (transportation, storage and distribution). However, the Integrated Natural Gas Pipeline System still retains a dominant position in the market under the recently created CENAGAS authority. The recent energy reform, which includes the Hydrocarbons Law, allows private industry to participate in such activities in the production of crude oil and natural gas as the following: storage, transportation, distribution, marketing and direct sales of natural gas, and the performance of liquefaction, regasification compression and decompression.

Pursuant to the most recent natural gas forecast (2016-2029) published by the Ministry of Energy, private investment in the natural gas sector is comprised as follows:

- 31 valid permits for open-access transportation systems, of which twenty-five are in operation, four under construction, one about to begin construction and one more about to begin operation;
- 23 distribution systems; and
- 3 natural liquid gas regasification terminals.

In addition, as the result of the meetings organized by the National Hydrocarbons Commission (CNH), a series of private companies have been awarded contracts for hydrocarbon exploration and drilling.

Natural Gas Transportation Projects

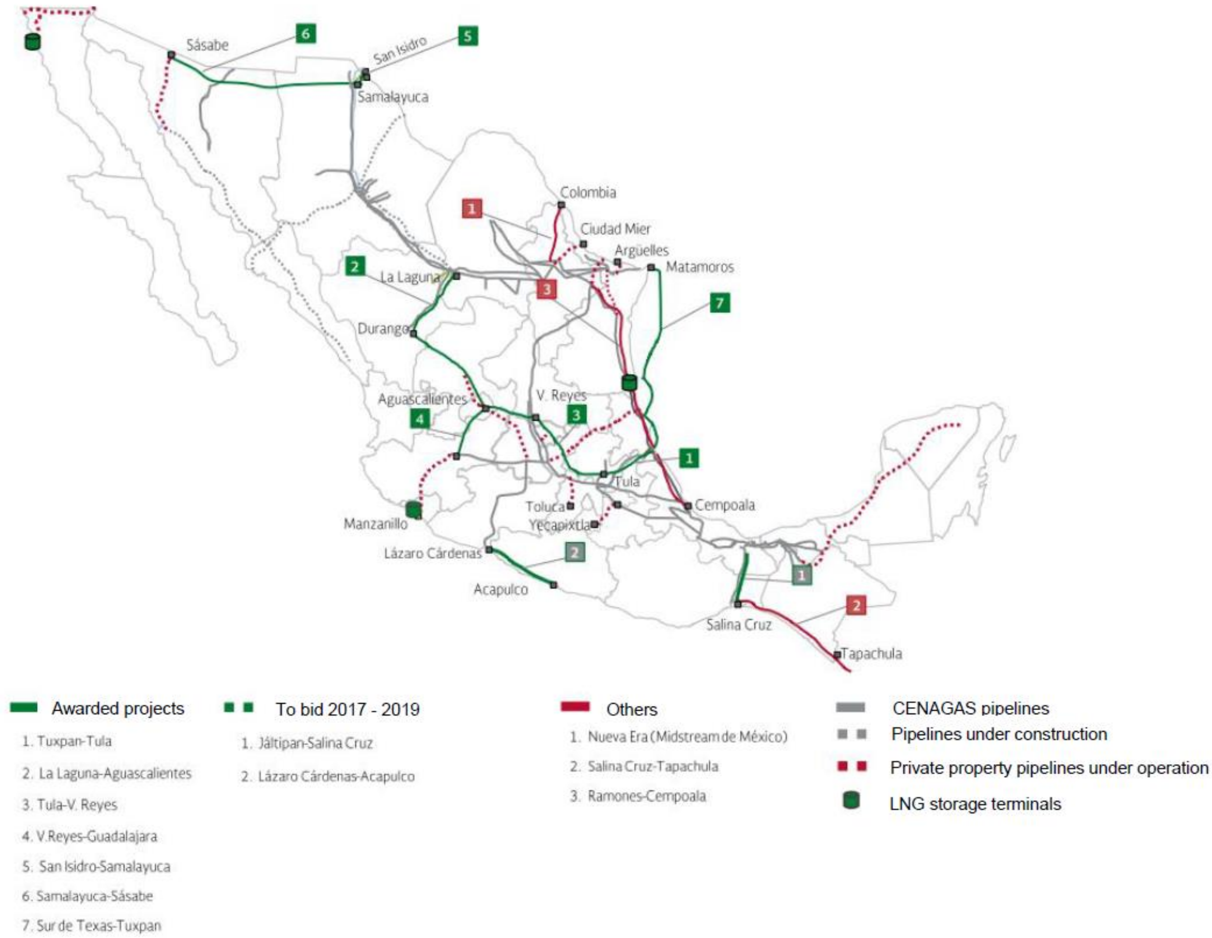
Project	States Affected	Date of award	To begin operation	Estimated investment (in millions of dollars)	Length
Projects announced for natural gas transportation:					
*San Isidro – Samalayuca**	Chihuahua	2015	2017	109	23
*Samalayuca - Sásabe**	Chihuahua and Sonora	2015	2017	571	650
*Tuxpan - Tula**..	Hidalgo, Puebla and Veracruz	2015	2017	458	283
*Tula – Villa de Reyes**	Hidalgo and San Luis Potosí	2016	2018	554	420
*Villa de Reyes – Aguascalientes - Guadalajara**...	Aguascalientes, Jalisco and San Luis Potosí	2016	2018	294	305
*La Laguna - Aguascalientes**......................	Aguascalientes, Zacatecas and Durango	2016	2018	473	600
*Sur de Texas – Tuxpan**..............................	Tamaulipas and Veracruz	2016	2018	2,111	800
*Jáltipan – Salina Cruz***	Oaxaca and Veracruz	2016-2019	2018-2019	643	247
*Lázaro Cárdenas Acapulco***.....................	Michoacán and Guerrero	2016-2019	2018-2019	456	331
*Baja Sur, Open Technology***	Baja California Sur,	2016	2019	800	N/A
*Los Ramones – Cempoala****....................	Nuevo León, Tamaulipas and Veracruz	TBD	2020	1,980	855

*Awarded to different companies, including IEnova.
**To bid 2017-2019
***Analysis deferred to the next five-year period (2020-2024).
Source: Five-Year Plan for the Expansion of the National Integrated Natural Gas Transportation and Storage System, 2015-2019 (2016 version) and calls for bids published by the Federal Electric Commission.

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 such as IEnova, that are well positioned to invest in this segment.

In 2015, following an analysis of the proposals submitted by CENAGAS and the Energy Regulatory Commission (ERC), the Ministry of Energy submitted the Five-Year Plan for the Expansion of the National Integrated Natural Gas Transportation and Storage System, 2015-2019. This plan includes strategic, commercial and social projects and seeks to provide systemic benefits to the national network. In its 2017 revision, published in March 2017, the plan contemplates eleven infrastructure projects to be submitted for bids between 2016 and 2019. The projects contemplated in the Plan involve adding over 4,500 more kilometers to the existing infrastructure, and an investment of approximately eight billion dollars.

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



Source: Energy Ministry / CENAGAS

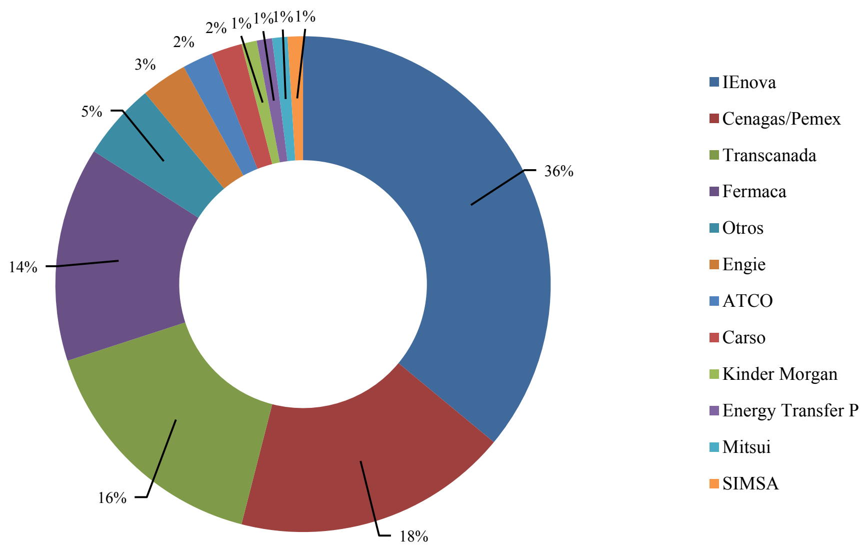
Open-Access Pipeline Transportation Projects

The present National Pipeline System in Mexico will need to be expanded to meet the nation's growing demand. The government is expected to issue at least four calls for bids for the construction and operation of gas pipelines between 2016 and 2017 (in addition to the seven contracts already awarded), in order to increase transportation capacity, thus achieving a solid pipeline network by 2019, capable of providing transportation capacity between points of supply and end users, thereby meeting the demand. As of June 30, 2016 the Company participates with a 36% share in the pipeline market, in terms of installed capacity, in comparison to other competitors.

The gas pipeline network in Mexico comprises approximately 15,000 km of transportation pipelines and 51,347 kilometers of distribution pipelines. The Mexican natural gas pipeline market is in the hands of a few key companies. The four largest transportation companies control over 80% of the market.

The following table shows the market participation in the natural gas transportation sector.

Market Shares in Natural Gas Transportation
(MMcfd)



Based on capacity authorized by Energy Regulatory Commission permits
MMcfd = millions of cubic feet per day
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.

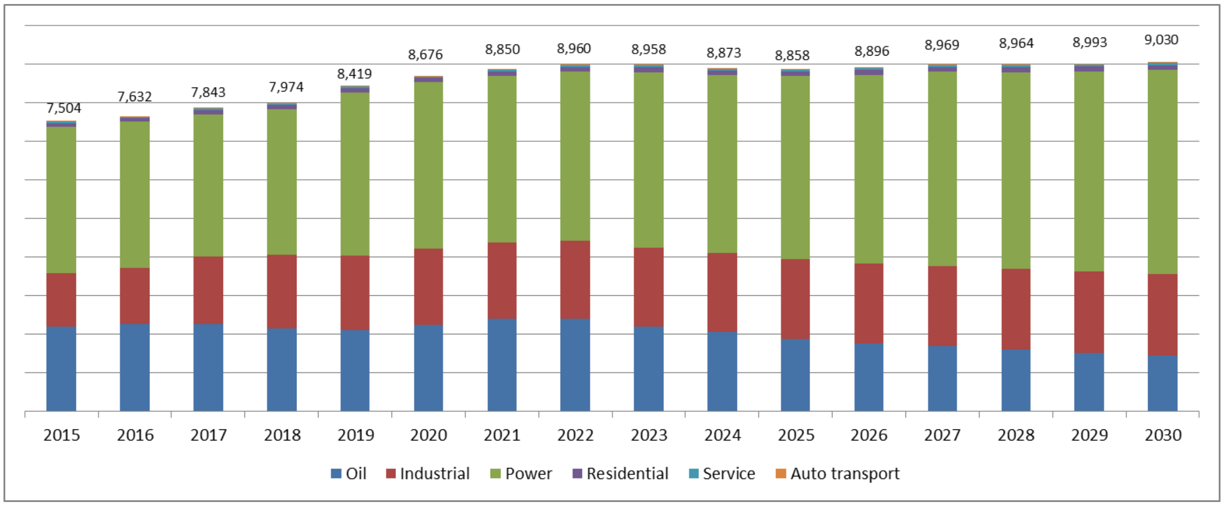
The following map and descriptive chart show the present and future natural gas expansion projects and the investment in each in millions of dollars.

Key	
In progress	**$ 800**
Future Projects	**$ 3,079**

Baja Sur (open technology)	800
Jaltipan-Salina Cruz (Pemex)	643
Ramones-Cempoala (Pemex)	1,980
Lázaro Cárdenas-Acapulco	456
Total investment	**$3,879**

Source: Ministry of Energy, CFE and Pemex

Natural Gas Demand in Mexico, 2015-2030
(MMcfd)



MMcfd = millions of cubic feet per day
Source: Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2015-2029.*

LNG Storage and Regasification Facilities

The significant growth of the demand for natural gas by the CFE and the Independend Energy Producers reached a demand of 3,797.6 MMcfd, representing an increase of 8.5% over 2014. It is expected that the demand will increase at an annual average growth rate of 1.2% between 2015 and 2030, increasing from 7,504 MMcfd in 2015 to 9,030 MMcfd in 2030. The level of demand has begun to overtake the national production level, giving rise to an increase in imports.

Apart from imports coming from cross-border pipelines, imports of LNG have helped meet the growing demand for natural gas in this country. Since 2003, when the Energy Regulatory Commisssion issued the first provisions regarding LNG storage and regasification plants, the required permits have been issued to three LNG regasification terminals. As of July 2016, the Company owns 50% of the capacity of all LNG storage sector companies.

LNG storage and regasification terminals

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

Source: *Energy Regulatory Commission.*

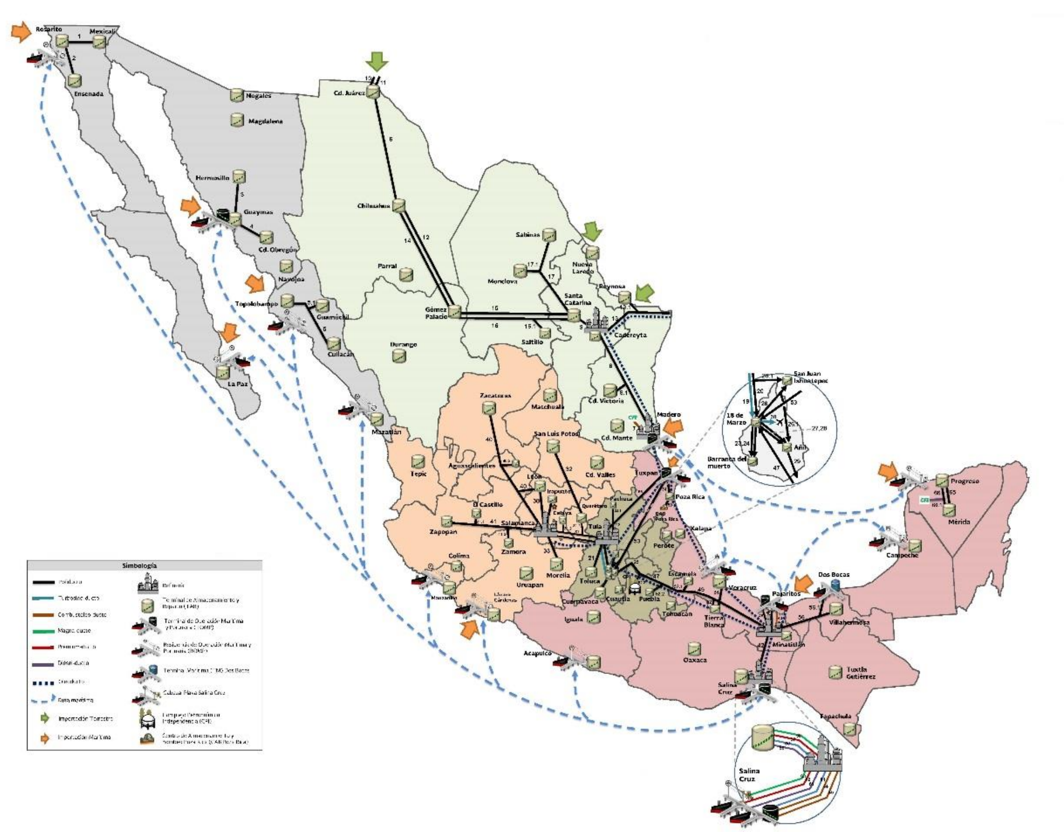
Transportation of Liquid Petroleum Products

Despite the recent growth for refined petroleum products, Mexico lacks adequate infrastructure for the storage, transportation and distribution of petroleum products. A high percentage of the refined product transportation services are still performed by trucks and ships, and it is increasingly necessary to find more efficient alternatives to meet the demand at the consumer outlets. According to the Ministry of Energy's Crude Oil and Petroleum Products Forecast for 2016 to 2030, between 2005 and 2015, the demand for gasoline and diesel for motor vehicles increased at an annual average rate of 1.7% and 1.9%, respectively. This scenario points to a possible investment opportunity in the development of infrastructure for the transportation and storage of petroleum products.

The energy reform allows private industry to participate in the construction and operation of petroleum product transportation and storage facilities. The transportation and storage of petroleum products will be regulated, and private industry will be allowed to participate subject to the issuance of a permit from the Energy Regulatory Commisssion. With regard to the liberation of the price of refined products, and with the understanding that imports will begin in 2016 and continue gradually until 2018, the Company expects that the refined products suppliers, and the market in general, will require additional infrastructure to meet the consumer demand. Liberation of the price of gasoline and diesel began in Baja California and Sonora in March 2017, and will continue throughout 2017 in the different regions of the country, ending in the Yucatan peninsula in December. The price of LPG was liberalized in January 2017 and it is expected that the price of jet fuel will be liberalized in January 2018.

The type of storage system to be built is a challenge. The use of land with depleted deposits has been problematic due to the existence of residual hydrocarbons that could be mixed with stored natural gas, creating problems regarding the legality of extraction.

The following map shows the existing national petroleum infrastructure.



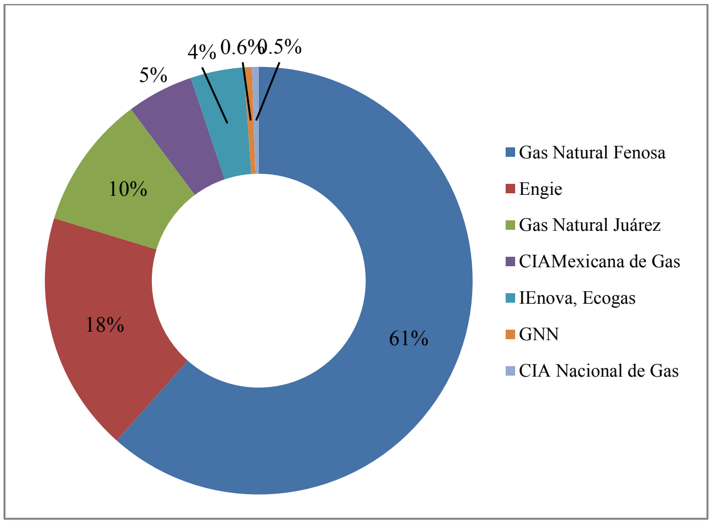
Source: Energy Ministry.

Natural Gas Distribution Business

At the end of 2015, the Energy Regulatory Commission had recorded twenty-three permits for the development of distribution systems in Mexico.

The chart below shows the structure of the natural gas distribution market in terms of the length of each network. The two major companies control 79% of the national natural gas distribution market.

Market Shares in Natural Gas Distribution



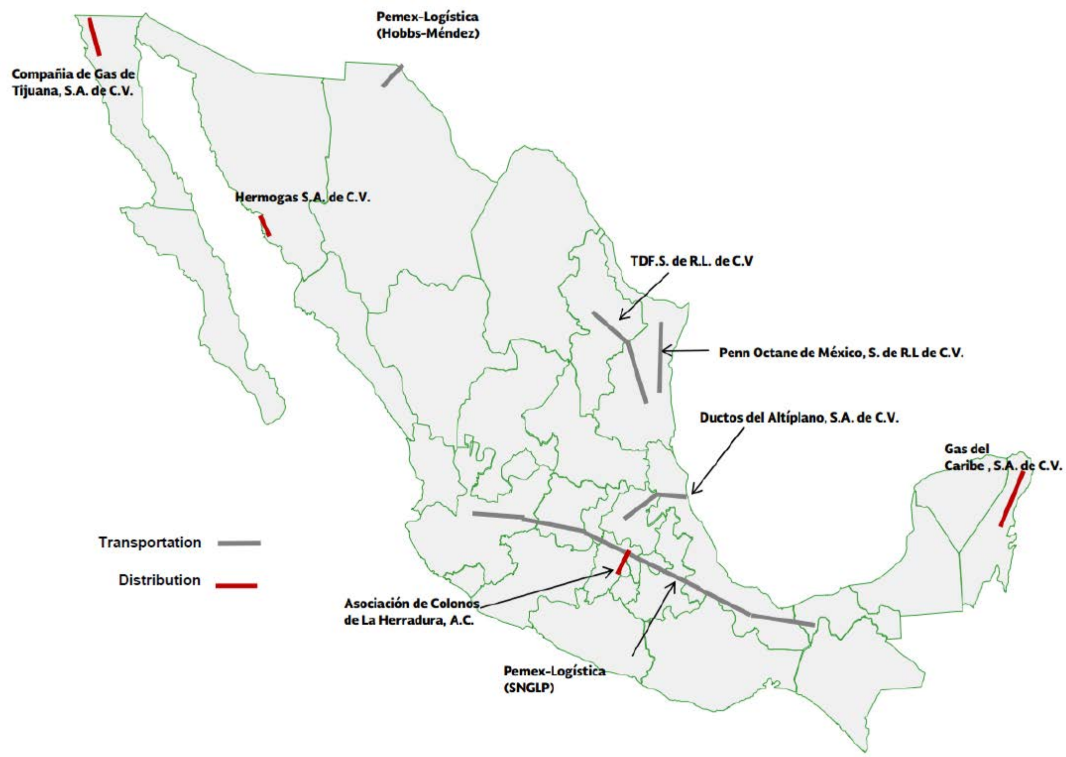
Source: Energy Ministry, Regulatory Briefing 2016-2030 (*Prontuario Regulatorio 2014-2015*).

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

The following map shows LPG transportation and distribution infrastructure:



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

Natural Gas Marketing

In July 2016, the Ministry of Energy published the Public Policy for the Implementation of the Natural Gas Market, whose objectives are to spur the development of a competitive natural gas market, to contribute to the security of the country's energy supply and to maintain a continuous supply of that hydrocarbon in order to achieve a competitive gas market in 2018. As part of the new policy, Pemex will have to reduce to 30% its share of the market over the next four years in order to limit its dominant position and allow other competitors to develop. Any natural gas sale or marketing activity will require prior authorization by the government regulatory authorities.

On February 1, 2017, the first phase of Pemex's Contract Award Program ("CAP") was held, under which were selected the individual users or packages which may choose the new marketing option that the private marketers will offer. These customers represent 21.3% of the volume sold by Pemex TRI during 2016.

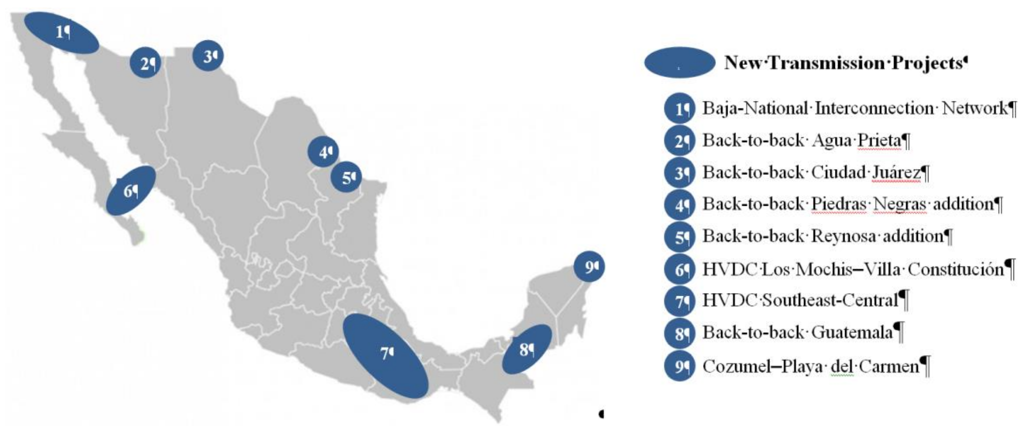
The Energy Regulatory Commission has made great strides in implementing a permanent, direct natural gas sales regimen. This regimen will allow all participants in the natural gas industry to buy natural gas directly from PEMEX's processing plant or at any point where it is imported, putting an end to the long transitory regimen, under which most consumers (except the Independend Energy Producers) had to buy this product and the related transportation services through Pemex TRI together with other services (including transportation, handling charges and profit margins on imports.) The implementation of a permanent, direct sales regimen will allow the natural gas marketing companies to play a more important role in the industry. Under the new Hydrocarbons Law, the Energy

Regulatory Commisssion will issue permits for the sale of natural gas. Any natural gas marketing activity will be subject to prior authorization by the regulating authorities.

The Mexican Power Generation Sector

As the result of the energy reform, private industry in Mexico is, subject to a certain degree of regulation, allowed to participate in most of the electrical industry production chain. Private industry may participate in the construction and operation of electricity generating plants, and compete with the CFE in the wholesale electric energy market. While the transmission and distribution of electricity will be controlled by the Mexican government, private industry may participate in these activities through service contracts. Retail sales (for small and medium-sized customers) such as public utilities, will remain the exclusive activity of the CFE, while qualified users (large users, with a demand of over 1 megawatt) may buy electric energy from any energy generator through a regulated wholesale electric energy market.

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



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.

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

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

At the end of December 2015, of the total electricity generation infrastructure, 61.6% were CFE plants, 19.4% were private parties while the remaining 19% were Independend Energy Producers.

The opening of the market to the Independend Energy Producers has made it possible to generate more efficient technologies in this country. For example, this initiative substantially increased the use of combined cycle, natural-gas based technologies in Mexico. Combined cycle technologies generate electricity using natural gas turbines that reuse hot gas exhaust to generate more electricity through steam turbines. This has proven much more efficient than the use of single cycle turbines. In addition, it provides for higher installed capacity factors. The growing focus on combined cycle technologies has had a significant impact on a market which had, to a great extent, been dependent on antiquated plants, many of which used fuel oil instead of natural gas as their production input.

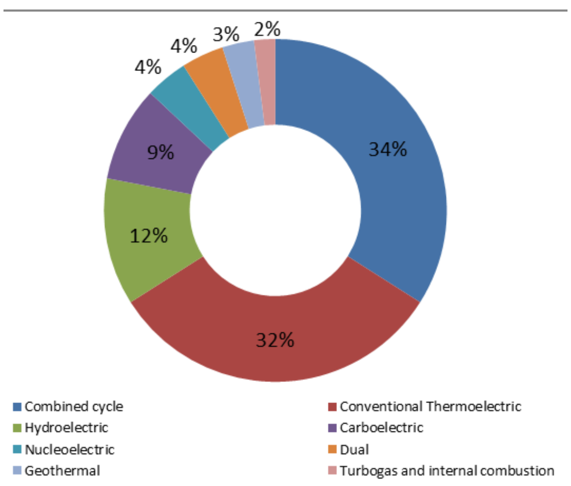
Generally, the Independend Energy Producers build and operate their own plants under twenty-five year contracts. Most of the Independend Energy Producers obtain natural gas from the CFE under long-term supply contracts, whose terms coincide with those of their operating contracts. The successful bidders must obtain all the permits required for the project, including those issued by the Energy Regulatory Commisssion.

At the end of 2015, the Energy Regulatory Commisssion had 576 energy generation permits authorized. Of these, 381 were permits for self-supply; 87 for cogeneration, 36 for imports, 33 for their own continuous use; 28 for Independend Energy Producers, 6 for small producing companies and 5 for exports. In all, 28,015.2 megawatts of capacity were authorized, with 50.4% concentrated in the Independend Energy Producers and 35.6% in the self-supplying modality. The increase in electric energy generation has stimulated investments in transmission lines and substations. In 2015, the transmission, sub-transmission, and low voltage network reached a length of 885,426.021 kilometers, representing an increase of 5,734 kilometers over 2014. This network comprises 230-440 kV lines, with 51,479.00 km, 5.8% of the total; 6.4% are for lines between 69 and 161 kV, 12.8% for lines between 23 and 34.5 kV and 39.9% to fuel oil as the input for electric energy production in Mexico.

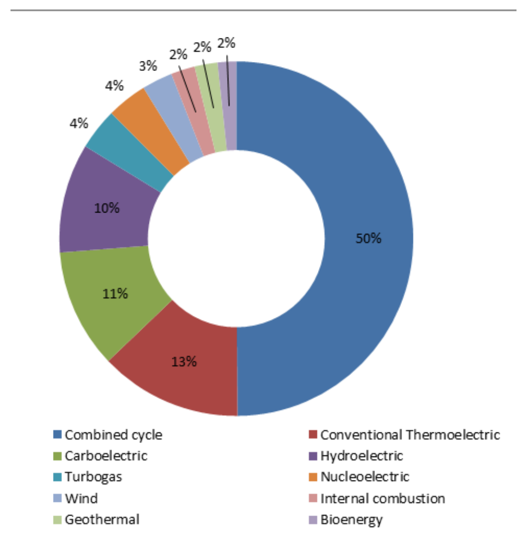
The shift towards the use of combined cycle technologies has reduced levels of use of fuel oil as an input for the production of electricity in Mexico. Between 2005 and 2015, energy generation using fuel oil dropped from 60.2 to 24.1 terawatt hours.

The following charts depict the generation of electric energy by the CFE by type of technology in 2004 and 2015:

Power Output by Source (January 2004)



Power Output by Source (2015)



Source: Mexican Energy Ministry, *Natural Gas and LPG Market Outlook 2016-2030.*

Prior to the energy reform, apart from the Independend Energy Producer program, private industry could participate in cogeneration, self-supply, imports, exports and low-level production (that is, the generation of less than 30 MW of electric energy for sale to CFE or for exportation). All electric energy generation projects require a permit from the Energy Regulatory Commisssion, with the understanding that their electric energy generation capacity must be 0.5 MW or greater.

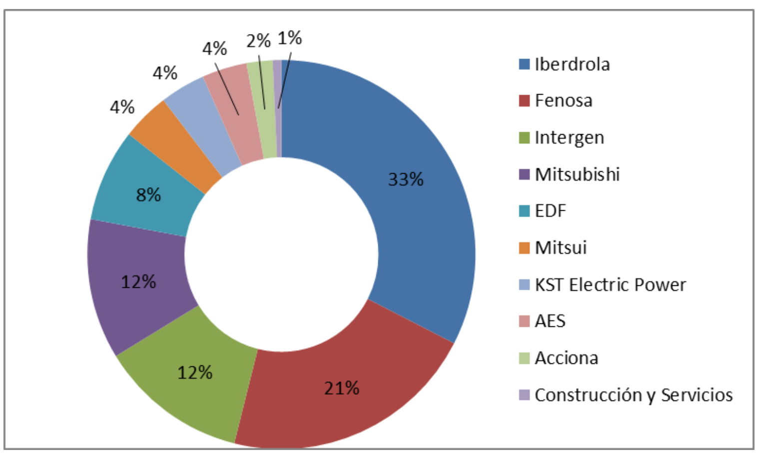
The following table shows the overall capacity, generation and investment represented by the projects authorized from 1992 until December 2014.

Modality	Total Capacity	Capacity per interconnection contract[1].	Share (%)
Modalities according to the Public Electric Energy Service Law (LSPEE)[2]			
CFE	395	395	0.9%
Independent producers	12,953	13,221	19.0%
Self-supply	7,129	4,785	10.5%
Low-level Production	65	64	0.1%
Cogeneración	3,648	1,945	5.4%
Exports	1,406	219	2.1%
Own Continuous Use	497	110	0.7%
Modalities according to the Electric Industry Law (LIE)[3]			
CFE - Generator	41,504	41,504	60.7%
Generator[4]	315	266	0.5%
Others			
FIRCO and GD[5]	131		0.2%
Total[6]	68,044	62,509	100

Notes: [1] Interconnection contract with CENACE. [2] Public Electric Energy Service Law. [3] Electric Industry Law.[4] Includes plants operating with permits granted in 2016, and permits pending. [5] Shared Risk Trust Fund (FIRCO) and Distributed Energy Generation (GD). [6] The totals may not coincide due to rounding.

The following chart shows the current participation of private industry in the electric energy generation market. The three main private companies control 65% of this market.

Energy Production (Independent Energy Producer)



Source: Ministry of Energy, Electricity Sector Forecast for 2015 – 2029. This chart is based on installed capacity in MW. It includes exclusively the electricity generated by private industry as Independend Energy Producers and excludes the CFE.

On March 29, 2016, in the first ever auction of the wholesale electricity market, CENACE awarded 5,426,458 clean energy certificates, representing 85.3% of the supply and 5,385.72 GWh of energy, representing 84.66% of the supply. Eighteen projects were awarded to eleven companies with long-term supply contracts, representing an investment of USD$2.6 billion between 2016 and 2018. The contracts will have a term of fifteen years, with twenty years for service contracts. The second auction was held in September 2016, in which a total of 23 companies in eleven countries were successful bidders. These companies will invest USD$4.0 billion dollars in the installation of 2,871 megawatts of new installed capacity in clean energy between 2016 and 2020. A total of 9,275,534 Clean Energy Certificates, 8,909,819 MWh of electric energy and 1,187 MW of power per year were awarded.

Sources of renewable energy

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

Mexico has a wide variety of renewable sources of energy, including wind, geothermic, solar and hydroelectric energy. The country is especially rich in wind and solar resources. The Mexican Wind Energy Association estimates that since 2004, the country has invested approximately 5.1 billion dollars, creating a capacity of 2,551 MW of energy, and expects this capacity to reach 15,000 MW between 2020 and 2022.

At present, renewable energy sources represent over 28% of Mexico's installed electric energy generation capacity, which represents an increase of 6.9% from 2014 to 2015.

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

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

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

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

Furthermore, the CFE contemplates holding auctions for the development and operation of transmission lines under long-term contracts, creating electricity interconnections with North and Central America, and contemplating investments estimated at more than USD$4.4 million dollars to modernize the electric energy transmission network.

The growth of the national natural gas and electric energy sectors

The National Population Council estimates that between 2015 and 2027, the national population will grow by 11.3% (equivalent to 13.6 million inhabitants). Despite the fact that this growth index represents less than half of that posted between 1995 and 2010 (which was 20.9%), it points to an increasing demand for electric energy in the future. The Company also believes that the present infrastructure is still insufficient to meet the country's future requirements, especially in the central part of the country, whose population is growing rapidly and will require the expansion of the gas pipeline and electric energy generation systems.

According to the Natural Gas Forecast for 2016-2030, in 2015 the demand for natural gas was 7.5 MMcfd, representing an increase of 4.1% over 2014. By 2030, the increased demand for natural gas will be 9 MMcfd – representing an increase of 20.3% since 2015, with an expected annual increase of 1.2%.

On the other hand it is forecast that from 2014 to 2019, the national electric energy demand will reach a compound annual growth rate of 3.0%. It is also foreseen that, relatively, the future demand for electric energy, especially during this latter period, will be covered by a volume of renewable sources far greater than the one presently in use.

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

Since 2012, in order to meet the demands created by the growing demand for natural gas in Mexico, and to continue its work as a promoter of the development for a transportation infrastructure, the CFE has issued calls for bids and has awarded sundry gas pipeline projects. These projects are:

- The Sásabe-Puerto Libertad-Guaymas gas pipeline (in the state of Sonora), with a capacity of 770 MMcfd (8.0 MMThd);
- The Guaymas-El Oro gas pipeline (which will cross the states of Sonora and Sinaloa), with a capacity of 510 MMcfd (5.3 MMThd);
- The Oro-Mazatlán gas pipeline (in the state of Sinaloa), with a capacity of 200 MMcfd (2.1 MMThd);
- The Encino-Topolobampo gas pipeline (which will cross the states of Chihuahua and Sinaloa), with a capacity of 670 MMcfd (6.9 MMThd);
- The Ojinaga-El Encino gas pipeline (which will cross the state of Chihuahua) with a capacity of 1,356 MMcfd (141 MMThd);
- The El Encino-La Laguna gas pipeline (crossing the states of Chihuahua and Durango) with a capacity of 1,500 MMcfd (15.6 MMThd);
- The San Isidro-Samalayuca gas pipeline (crossing the state of Chihuahua) with a capacity of 1,135 MMcfd (11.8 MMThd);
- The Samalayuca-Sásabe gas pipeline (crossing the states of Chihuahua and Sonora) with a capacity of 472 MMcfd (4.9 MMThd);
- Tuxpan – Tula (crossing the state of Hidalgo), with a capacity of 886 MMcfd (9.2 MMThd);
- Tula – Villa de Reyes (crossing the states of Hidalgo and San Luis Potosí) with a capacity of 886 MMcfd (9.2 MMThd);
- Villa de Reyes-Aguascalientes-Guadalajara (crossing the states of San Luis Potosí, Aguascalientes and Jalisco) with a capacity of 886 MMcfd (9.2 MMThd);

- Laguna – Aguascalientes (crossing the states of Durango, Zacatecas and Aguascalientes) with a capacity of 1,198 MMcfd (12.4 MMThd);

- Southern Texas-Tuxpan (crossing the states of Tamaulipas and Veracruz) with a capacity of 2,600 MMcfd (27 MMThd);

- The Empalme Lateral (crossing the state of Sonora) with a capacity of 226 MMcfd (2.4 MMThd);

- The Hermosillo Lateral (crossing the state of Sonora) with a capacity of 100 MMcfd (1 MMThd); and

- The Tula Lateral (crossing the state of Hidalgo) with a capacity of 505 MMcfd (5.3 MMThd);

In December 2012, Gasoductos del Sureste signed with Pemex TRI an ethane transportation service contract for the construction and operation of a pipeline approximately 224 km. long, with a design transportation capacity of up to 238.0 MMcfd (4.2 MMThd) to supply ethane from Pemex's processing plants in the States of Tabasco, Chiapas and Veracruz to the "Etileno XXI" ethylene and polyethylene polymerization plant in the state of Veracruz. The first segment of the ethane pipeline began commercial activity in January 2015, the second segment began commercial activity in July 2015 and the third segment began commercial activities in December 2015.

In July 2013, Gasoductos del Noreste signed a firm, twenty-five year natural gas transportation contract with Pemex TRI. The contract was later assigned by Pemex TRI in favor of CENAGAS. This contract covered the transportation from the 48-inch Los Ramones I Gas Pipeline, which is 116 kilometers long, and two compression stations. The Company concluded construction of the Los Ramones I Gas Pipeline in December 2014 and began business operations that same month.

In October 2013, Pemex announced the development of the Los Ramones II Gas Pipeline, in two sections: Los Ramones Norte and los Ramones Sur. The Los Ramones Norte pipeline is a natural gas transportation system comprising a pipeline approximately 452 kilometers long and including two compression stations. In March 2014, Gasoductos de Chihuahua (through DEN) agreed to jointly develop the Los Ramones Norte Gas Pipeline in a joint venture with TAG Pipelines Norte, in which it has a minority share. In addition, the joint TAG Pipelines Norte business agreed to a definitive natural gas transportation service contract with Pemex TRI, for the total capacity of the Los Ramones Norte Gas Pipeline, for a period of twenty-five years. The contract was later assigned by Pemex TRI to CENAGAS. The Los Ramones Norte Gas Pipeline began operation in February 2016.

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

Independently of the above, the Energy Regulatory Commisssion is attempting to establish, as soon as possible, a permanent regimen for the direct sale of natural gas for all the users of the National Pipeline Network. With the introduction of private industry into this market, the users will no longer be forced to buy natural gas from Pemex TRI bundled with the purchase of transportation and marketing services. In addition, the establishment of a permanent regime will pave the way for the growth of competition and, over time, for efficiency. Pursuant to such a regimen, the major users will be able to reserve capacity in the National Pipeline Network, from which there will eventually arise a secondary capacity market. The Energy Regulatory Commisssion also plans to establish a shared cost system to foster gas pipeline construction. Once the permanent regimen takes effect and its implementation begins, the natural gas transportation and distribution system will receive new infusions of capital. As the requirements for natural gas and electric energy infrastructure grow and PEMEX continues concentrating mainly on exploration and drilling activities, the companies participating in the natural gas transportation and distribution system will find themselves in a favorable position to obtain benefits.

In addition, the Ministry of Energy recently published the National Electric Sector Development Program, or PRODESEN, for the development of the national electric energy system, whereby new energy generation plants and transmission lines are being planned for different regions of Mexico. The plan also contemplates the interconnection between the Baja California electric energy network and the State of Sonora, the implementation of several cross-border interconnections between the United States and Mexico, and a direct current line 600 km. long to connect renewable energy projects in Oaxaca with central Mexico.

According to the PRODESEN published in July 2016, the brisk development pace will continue, with about 6.0 GW of new capacity which are expected to go on line at the end of 2016, and another 5.3 GW of new capacity through the CFE in 2017, and private electric energy operators. Of this total, during the second year and a half, gas turbines will furnish 56% of the new energy supply, followed by solar energy with 13%, wind energy with 12%, cogeneration with 9% and 8.5% from other thermal sources (internal combustion, nuclear energy, aviation fuel and conventional thermoelectric plants), with the remaining 1% from hydroelectric, geothermal and bioenergy sources.

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.

The Company anticipates that current macroeconomic dynamics in Mexico will create significant opportunities for growth in the energy infrastructure sector over the next several years as demand for energy resources continues to grow. 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 USD$9.7 billion.

Regulatory Outlook

In Mexico, both the natural gas and power sectors are regulated and include a high level of participation by the Mexican government. In the power segment, until the recent amendment of the legal framework for the regulation of the Mexican energy sector the Mexican Federal Electricity Commission was a decentralized agency of the Mexican government and was responsible for all planning activities relating to the Mexican power grid and for generating, transmitting, distributing and selling electricity in Mexico. As a result of such amendment, the Mexican Federal Electricity Commission is now an independently-managed company 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 "Legal Framework and Taxation."

Natural Gas and Power Demand Outlook

Private industry currently operates more than 62.4% of the effective capacity of Mexico's combined-cycle electric energy generation projects through contracts with the Independend Energy Producers. These projects generate approximately 23.1% of all electric energy produced in Mexico. The opening of the market to the Independend Energy Producers substantially increased the number of combined-cycle, natural gas-fired technologies Mexico. Among other factors, the transition from fuel oil to the more efficient combined-cycle technologies which use natural gas to generate electricity, has significantly increased the demand for natural gas in Mexico, which has become the main source of fuel for energy generation. From 1999 to 2012, the demand for natural gas in Mexico doubled, reaching 7,209 MMcfd in 2014, according to the Ministry of Energy's Natural Gas and LP Gas Forecast for 2015-2029.

According to the Ministry of Energy, it is expected that the demand for natural gas and the generation of energy will continue to grow over the next fourteen years, with average annual growth rates of 2.5% and 3.5%, respectively. This implies a national demand of 10,390.3 MMcfd of natural gas (an increase of 44.1% and 471.6 terawatts/hour of gross energy generation (an increase of 68%) by 2029.

Natural Gas Supply Outlook

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

Competition Outlook

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

The Competition

The Gas Segment

The Gas Pipeline Business

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

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

The LNG Business

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

The Natural Gas Distribution Business

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

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

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

The Electric Energy Segment

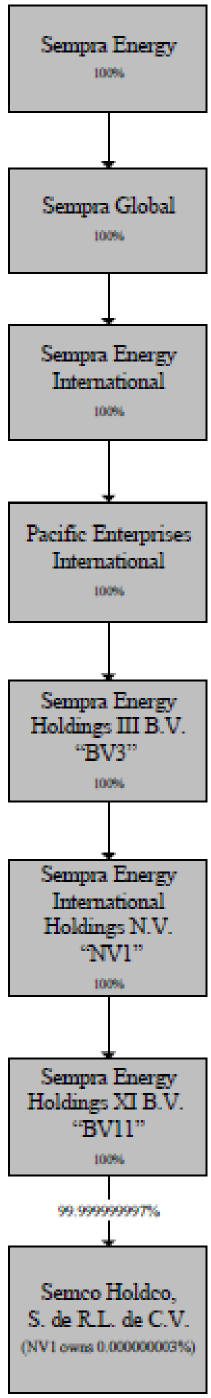
The laws and regulations applicable to electric energy generation in Mexico limited private industry participation in certain types of activities, to wit: independent electric energy producers, exporters, small producers and generators self-supplying energy for their own use. However, with the recent energy reform and the publication, in August 2014, of the Electric Energy Industry Law, private industry generation of electric energy, while subject to the issuance of a permit, is no longer limited and it may sell to the wholesale markets. See the section “Legal Framework and Taxation”. CENACE currently holds annual calls for the award of long-term electricity supply contracts with CFE, where the Company competes with globally recognized energy generators such as Enel, Engie, Iberdrola, Cubico, Sunpower, Zuma, among others.

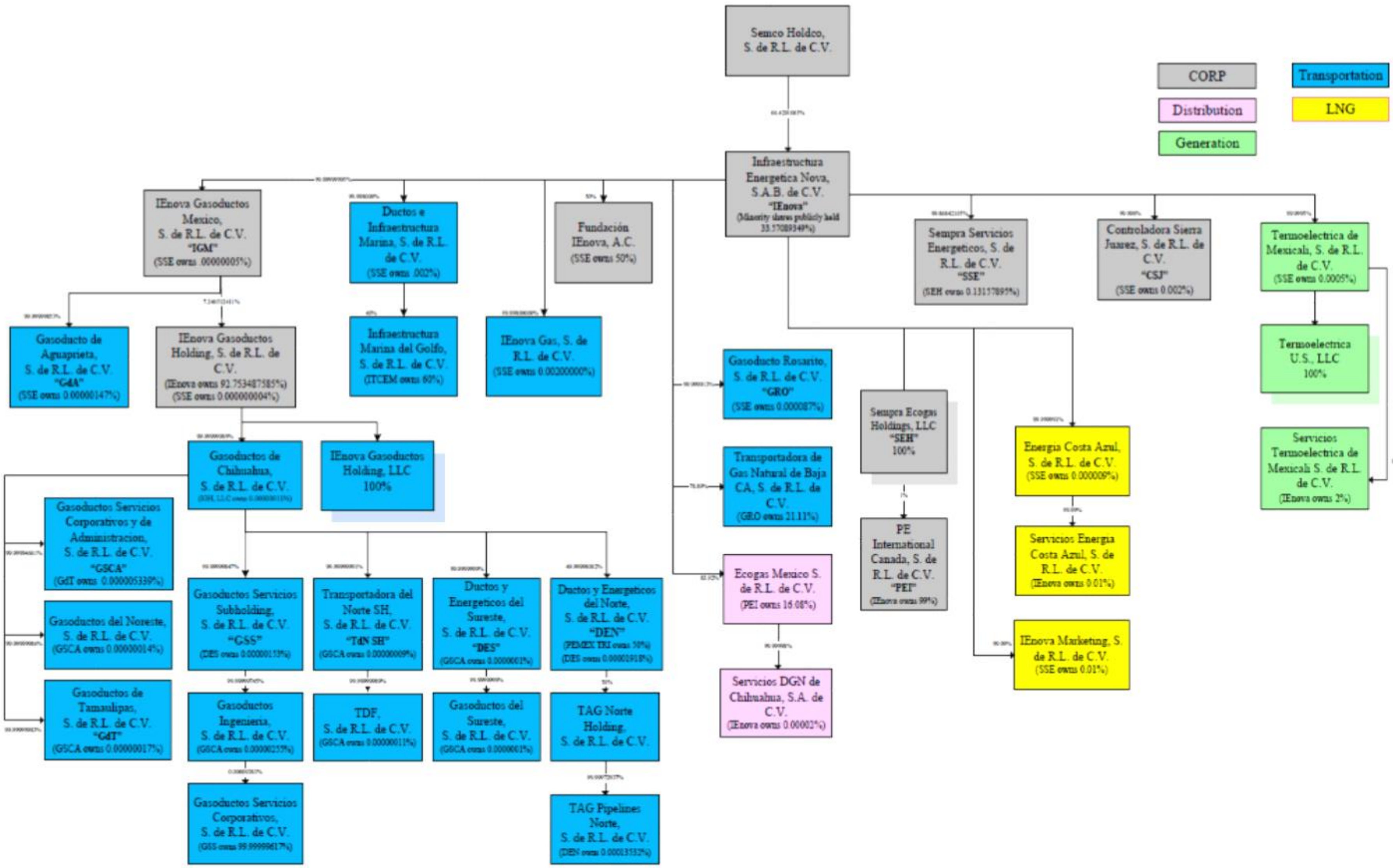
During 2016, IEnova participated in these bidding processes, being awarded with two solar projects during the Second Long Term Auction: "Tepezalá II Solar" and "Rumorosa Solar" with capacities of 100 MW and 41 MW, respectively.

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

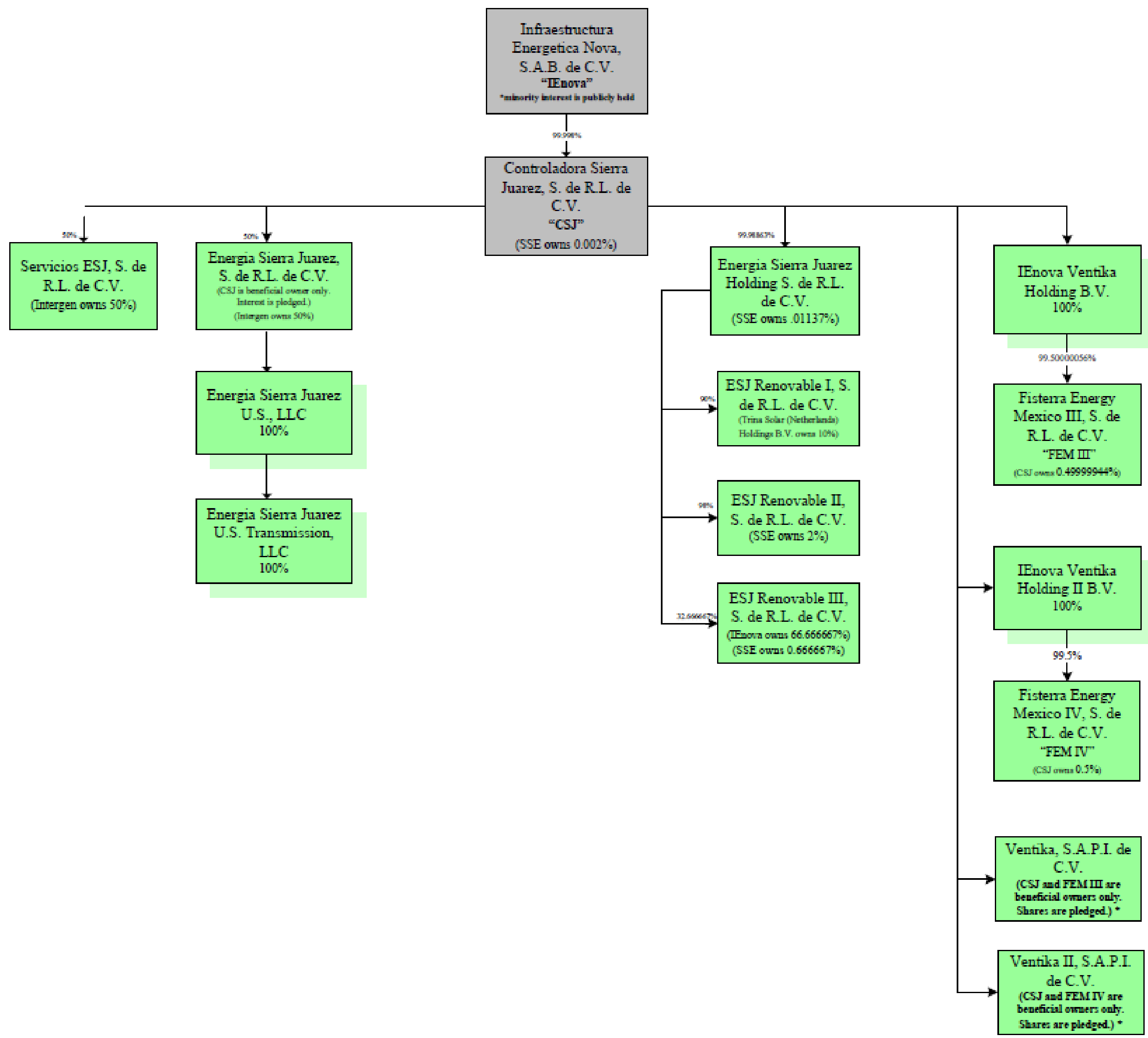
With regard to the Energia Sierra Juárez wind power generation facility, all the electric energy generated by the first phase of this project is sold to one of the Company’s affiliates in the United States under a long-term supply contract. See the section “―Business segments – Electric Energy Segments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

ix) Corporate Structure as of March 14, 2017





Semco Holdco, S. de R.L. de C.V.
CORP
Distribution
Generation
Transportation
LNG
Infraestructura Energetica Nova, S.A.B. de C.V. "IEnova" (Minority shares publicly held 33.57089349%)
IEnova Gasoductos Mexico, S. de R.L. de C.V. "IGM" (SSE owns .00000005%)
Ductos e Infraestructura Marina, S. de R.L. de C.V. (SSE owns .002%)
Fundación IEnova, A.C. (SSE owns 50%)
Sempra Servicios Energeticos, S. de R.L. de C.V. "SSE" (SEH owns 0.13157895%)
Controladora Sierra Juarez, S. de R.L. de C.V. "CSJ" (SSE owns 0.002%)
Termoelectrica de Mexicali, S. de R.L. de C.V. (SSE owns 0.0005%)
Gasoducto de Aguaprieta, S. de R.L. de C.V. "G4A" (SSE owns 0.00000147%)
IEnova Gasoductos Holding, S. de R.L. de C.V. (IEnova owns 92.753487585%) (SSE owns 0.000000004%)
Infraestructura Marina del Golfo, S. de R.L. de C.V. (ITCEM owns 60%)
IEnova Gas, S. de R.L. de C.V. (SSE owns 0.00200000%)
Gasoducto Rosarito, S. de R.L. de C.V. "GRO" (SSE owns 0.000087%)
Sempra Ecogas Holdings, LLC "SEH" 100%
Energia Costa Azul, S. de R.L. de C.V. (SSE owns 0.000009%)
Termoelectrica U.S., LLC 100%
Servicios Termoelectrica de Mexicali S. de R.L. de C.V. (IEnova owns 2%)
Gasoductos de Chihuahua, S. de R.L. de C.V.
IEnova Gasoductos Holding, LLC 100%
Transportadora de Gas Natural de Baja CA, S. de R.L. de C.V. (GRO owns 21.11%)
PE International Canada, S. de R.L. de C.V. "PEI" (IEnova owns 99%)
Servicios Energia Costa Azul, S. de R.L. de C.V. (IEnova owns 0.01%)
Gasoductos Servicios Corporativos y de Administracion, S. de R.L. de C.V. "GSCA" (GdT owns 0.000005339%)
Ecogas Mexico S. de R.L. de C.V. (PEI owns 16.08%)
IEnova Marketing, S. de R.L. de C.V. (SSE owns 0.01%)
Gasoductos Servicios Subholding, S. de R.L. de C.V. "GSS" (DES owns 0.00000153%)
Transportadora del Norte SH, S. de R.L. de C.V. "TdN SH" (GSCA owns 0.00000009%)
Ductos y Energeticos del Sureste, S. de R.L. de C.V. "DES" (GSCA owns 0.0000001%)
Ductos y Energeticos del Norte, S. de R.L. de C.V. "DEN" (PEMEX TRI owns 50%) (DES owns 0.00001918%)
Gasoductos del Noreste, S. de R.L. de C.V. (GSCA owns 0.00000014%)
Servicios DGN de Chihuahua, S.A. de C.V. (IEnova owns 0.00002%)
Gasoductos de Tamaulipas, S. de R.L. de C.V. "GdT" (GSCA owns 0.00000017%)
Gasoductos Ingenieria, S. de R.L. de C.V. (GSCA owns 0.00000255%)
TDF, S. de R.L. de C.V. (GSCA owns 0.00000011%)
Gasoductos del Sureste, S. de R.L. de C.V. (GSCA owns 0.0000001%)
TAG Norte Holding, S. de R.L. de C.V.
Gasoductos Servicios Corporativos, S. de R.L. de C.V. (GSS owns 99.99999617%)
TAG Pipelines Norte, S. de R.L. de C.V. (DEN owns 0.00013552%)


Infraestructura Energetica Nova, S.A.B. de C.V.
"IEnova"
*minority interest is publicly held
99.998%
Controladora Sierra Juarez, S. de R.L. de C.V.
"CSJ"
(SSE owns 0.002%)
50%
Servicios ESJ, S. de R.L. de C.V.
(Intergen owns 50%)
50%
Energia Sierra Juarez, S. de R.L. de C.V.
(CSJ is beneficial owner only. Interest is pledged.)
(Intergen owns 50%)
Energia Sierra Juarez U.S., LLC
100%
Energia Sierra Juarez U.S. Transmission, LLC
100%
99.98863%
Energia Sierra Juarez Holding S. de R.L. de C.V.
(SSE owns .01137%)
90%
ESJ Renovable I, S. de R.L. de C.V.
(Trina Solar (Netherlands) Holdings B.V. owns 10%)
98%
ESJ Renovable II, S. de R.L. de C.V.
(SSE owns 2%)
32.666667%
ESJ Renovable III, S. de R.L. de C.V.
(IEnova owns 66.666667%)
(SSE owns 0.666667%)
IEnova Ventika Holding B.V.
100%
99.50000056%
Fisterra Energy Mexico III, S. de R.L. de C.V.
"FEM III"
(CSJ owns 0.49999944%)
IEnova Ventika Holding II B.V.
100%
99.5%
Fisterra Energy Mexico IV, S. de R.L. de C.V.
"FEM IV"
(CSJ owns 0.5%)
Ventika, S.A.P.I. de C.V.
(CSJ and FEM III are beneficial owners only. Shares are pledged.) *
Ventika II, S.A.P.I. de C.V.
(CSJ and FEM IV are beneficial owners only. Shares are pledged.) *

x) Description of The Company's principal Assets

Business Overview by Industry Segment Gas Segment

Gas segment includes (1) the Company's pipelines business, which owns and operates systems for receiving, transporting, storage and delivery of natural gas, ethane and LPG, (2) the Company's LNG business, which owns and operates an LNG storage and regasification terminal, and also purchases LNG and sells natural gas to its customers, and (3) the natural gas distribution business, which distributes natural gas to more than 119,000 residential, commercial and industrial customers in northern Mexico. A more detailed description of each of the businesses within gas segment follows.

Pipeline and Storage Business

Overview

The Company's pipelines business owns and operates systems for receiving, transporting, storing and delivering natural gas, LPG and ethane, including more than 2,900 km of natural gas pipelines (of which approximately 1,393 km were under construction as of December 2016). Of these, 1,584 km of pipeline are presently in operation; 224 km of ethane pipelines, 190 km of LPG pipelines, ten natural gas compression stations in operation and four under construction with an aggregate of over 586,310 horsepower, and an 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara. These assets are located in the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz. The natural gas pipelines have an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd), the ethane pipeline system has a design capacity of approximately 33 MMcfd (0.6 MMThd) its first segment, approximately 100 MMcfd (1.8 MMThd) in the second segment and approximately 106 MMcfd (1.9 MMThd) in the third segment. The LPG pipeline has a design capacity of 34,000 Bbld (1.9 MMThd). The Company's current pipeline assets include the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline, Sonora pipeline, San Isidro – Samalayuca pipeline, Ojinaga–El Encino pipeline, Empalme Lateral pipeline and Naco compression station. The Company's pipeline and storage assets also include the assets owned by Gasoductos de Chihuahua, the former joint venture with Pemex TRI, in which the Company maintained a 50% interest before September 27, 2016, when the Company acquired the remaining 50% equity interest from Pemex TRI. Gasoductos de Chihuahua owns the San Fernando pipeline, Samalayuca pipeline, Ethane pipeline, TDF LPG pipeline, Los Ramones I pipeline, Gloria a Dios compression station, Guadalajara LPG terminal and Los Ramones Norte pipeline through DEN participation in TAG Pipelines Norte joint venture.

Most of the Company's 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 Center for the Control of Natural Gas, Pemex TRI and the Mexican Federal Electricity Commission.

The following table contains a summary of both operating assets and assets under construction, property of the gas pipeline business as of December 31, 2016, including those in which it held a 50% share through a prior joint venture with Pemex TRI, Gasoductos de Chihuahua, of which the Company is now sole proprietor thereof.

Assets	% share	Length of system (km.)	Design capacity (mmpfd)	% of long-term capacity contracted (1) (2)	Compression available (in HP)	Date Commercial Operations Begun
Natural Gas Transportation						
Rosarito Pipeline System	100%	302(3)	1,434(3)	71%(11)	30,000	August 2002(4)
TGN Gas Pipeline	100%	45	940	100%	8,000	June 2000(5)
Aguaprieta Pipeline	100%	13	200	25%(12)	N/A	November 2002
Naco Station	100%	N/A	90	100%	14,340	September 2001
Sonora Pipeline	100%	835	770	100%	21,000-	December 2014
			510		11,000(7)-	Second quarter of 2017(6)
San Fernando Pipeline (9)	100%	114	1,460	100%	95,670	November 2003
Samalayuca Pipeline (9)	100%	37	400	50%	N/A	December 1997
Gloria a Dios Station (9)	100%	N/A	60	100%	14,300	October 2001
Los Ramones I Pipeline (9)	100%	116	2,100	100%	123,000	December 2014
Ojinaga – El Encino Pipeline	100%	220	1,356	100%	N/A	Second quarter of 2017
Los Ramones Norte Pipeline (9)	25%	452	1,420	100%	123,000	February 2016
San Isidro – Samalayuca Pipeline	100%	23	1,135(8)	100%	46,000(7)	March 2017
South Texas–Tuxpan Pipeline (14)	40%	800	2,600	100%	100,000	Fourth quarter of 2018
Empalme Lateral Pipeline	100%	20	226	100%	N/A	Second quarter of 2017
Ethane pipeline (9)	100%	224	238(13)	100%	N/A	December 2015
LPG Transportation						
TDF Pipeline (9)	100%	190	34,000 bbl/d(9,10)	100%	N/A	December 2007
LPG Storage						
LPG Terminal at Guadalajara LPG(9)	100%	N/A	80,000 bbl.(10)	100%	N/A	December de 2013

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

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

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

(4) The Rosarito Pipeline includes the Algodones compression station, the segment of the Rosarito Mainline system, the LNG Spur system and the segment of the Yuma Lateral system, which began operations on different dates between 2002 and 2010.

(5) The TGN pipeline includes an expansion which began operation in February 2008.

(6) Construction of the Sásabe – Puerto Libertad – Guaymas, Sonora Pipeline has been concluded. The Guaymas – El Oro segment is expected to start operations during the second quarter of 2017.

(7) Required power, subject to adjustment according to the progress of the installation of the compression stations.

(8) The San Isidro – Samalayuca Pipeline includes a distribution header with a capacity of up to 3,000 mmpfd (31.2 mmthd) which will interconnect with several pipeline systems.

(9) The assets in which the Company previously held a 50% share in the joint venture with Pemex TRI. Before purchasing the remaining 50% of this joint venture with Pemex TRI on September 27, 2016, the Company did not consolidate this project, but would recognize the share of profits under the equity method.

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

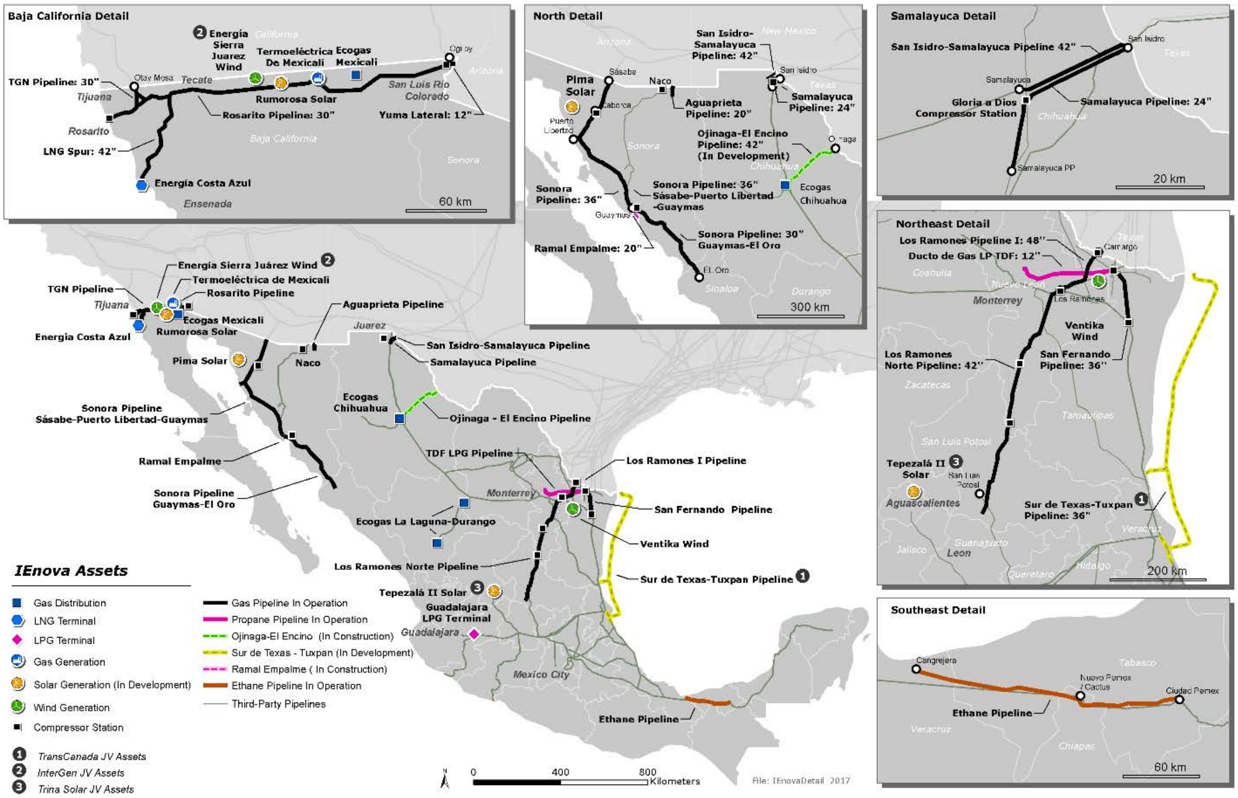
(11) Of the firm contracts whereby the Rosarito Pipeline capacity was initially contracted, 71% are now long-term.

(12) 25% of the contracted long-term capacity. If one includes additional, non-long-term contracts, the contracted capacity of the Aguaprieta pipeline is 61%.

(13) The ethane pipeline comprises three segments with different lengths, diameters and transportation capacities. The figures shown in this table are the arithmetical sum of the length and the design capacities of each of three sections comprising this system.

(14) To be developed through IMG in a joint venture with TransCanada.

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



Firm Transportation Service Agreements

The Company has entered into long-term firm transportation services agreements with various customers with respect to all of the Company's pipelines, which are the key revenue generating contracts for the Company's pipelines business. Pursuant to these contracts the Company is obligated to provide to its customers, and them are required to pay the Company for, natural gas transportation service for up to certain maximum daily quantities of natural gas or LPG, as applicable. Each customer pays a monthly fee consisting of a fixed reservation component and a variable component based on the amount of natural gas delivered, plus reimbursement for expenses related to the provided transportation services. The fixed reservation component of these fees account for the substantial majority of the Company's revenue under these agreements, and must be paid by 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 the Company may charge to users that have not agreed upon a lower rate with the Company. 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 the Company's firm transportation services agreements also include a financial guarantee or letter of credit to secure customers' compliance with the terms of the contract. Because the Company's pipelines systems are open-access pipelines, any unused capacity in the Company's pipeline systems can be sold to existing customers or to any third party pursuant to interruptible transportation agreements. While the Company has entered into interruptible transportation services with some customers, such contracts have historically been immaterial to the Company's business and results of operations.

The Company's pipelines Operating Assets

Rosarito pipeline system

The Rosarito pipelines system in Baja California is comprised of three pipelines of approximately 302 km in aggregate length, as well as 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 the Company's interconnection point with TGN pipeline, in the south of the city of Tijuana. The system's bi-directional capability allows the Company to use natural gas supplies from either the U.S. domestic natural gas market or from its LNG Terminal. The three pipelines comprising this system include the Rosarito Mainline, the LNG Spur and the Yuma Lateral:

- *Rosarito Mainline.* This system was completed in 2002 to supply natural gas from the United States to several power plants and industrial customers in Baja California, and 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 the Company's LNG terminal into the Rosarito Mainline for delivery to power plants and industrial customers in Mexico and the pipeline systems in the United States. This system is comprised of a 42-inch diameter pipeline with a length of approximately 72 km and a capacity of 2,600 MMcfd (27.0 MMThd).

- *Yuma Lateral.* This system was completed in 2010 to supply the power generation market in Arizona, and 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 a 30,000 horsepower Algodones compression station installed on the Rosarito Mainline in Algodones, Baja California, which increases the system's capacity but does not directly generate revenue.

The Company has entered into 13 firm transportation services agreements with the Rosarito pipeline system's customers, which represent 3,782 MMcfd (39.3 MMThd) or 71% 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]	Weighted Average Remaining Contract Length
Shell	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California.	June 19, 2008	20 years	1,104 MMcfd (maximum daily quantity)	12 years
IEnova Marketing (a subsidiary of ours)[2]	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the LNG Spur and the Rosarito Mainline in Tecate, Baja California.	May 1, 2008	20 years	1,240 MMcfd (maximum daily quantity)	12 years
Gazprom	Transportation of natural gas from the Company's LNG terminal to the interconnection point of the Rosarito Mainline with the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California.	April 14, 2009	20 years	135 MMcfd (maximum daily quantity)	12 years
IEnova Marketing (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 TGN pipeline near Tijuana, Baja California.	April 1, 2014[4]	20 years	379 MMcfd (maximum daily quantity)	6 years
InterGen	Transportation of natural gas from an interconnection point of the Rosarito Mainline and the North Baja Pipeline at the Mexico–U.S. border in Los Algodones, Baja California to a point near Las Palmas, Mexicali, Baja California.	February 28, 2002	25 years	128 MMcfd (maximum daily quantity)	12 years
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 the Company's Termoeléctrica de Mexicali power plant.	February 26, 2002	20 years	100 MMcfd (maximum daily quantity)	7 years

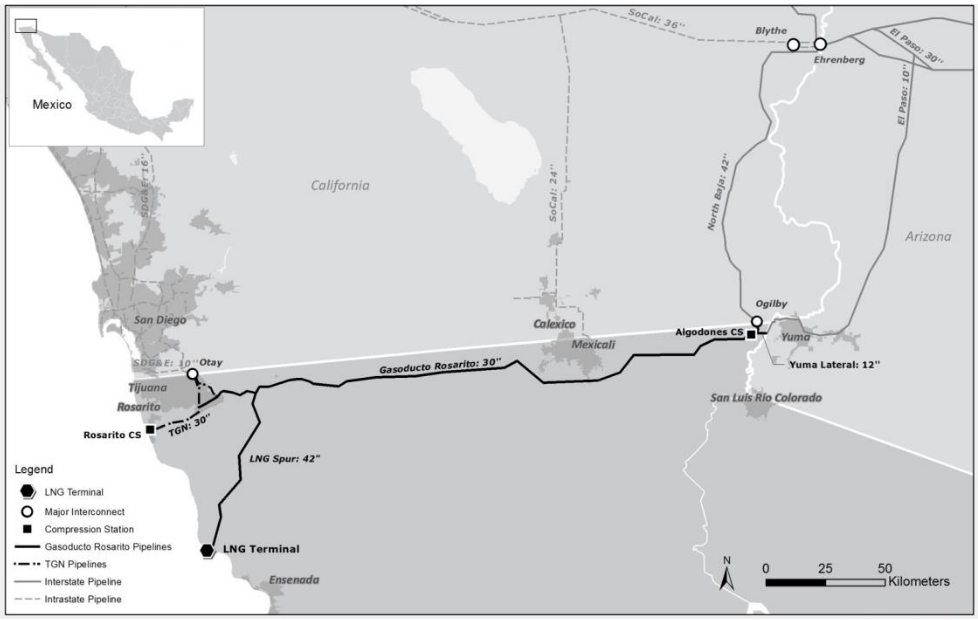
(1) In certain cases, the contracted capacity presented in this table may exceed the system's design capacity due to connection or other limitations in the different components of the Rosarito pipelines system.

(2) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under its contracts with the Rosarito pipelines system in an aggregate amount of USD$125.8 million. IEnova Marketing currently utilizes its contracted capacity to transport natural gas it provides to its customers and to the 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) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of Termoeléctrica de Mexicali's obligations under this contract in the amount of USD$29.4 million. Termoeléctrica de Mexicali currently utilizes its contracted capacity to transport gas for operation of its generators.

(4) The 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 TGN pipeline:



TGN Pipeline

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 the Company's affiliate SDG&E in the San Diego, California area. This fully bi-directional system, which is comprised of approximately 45 km of 30-inch diameter pipeline and has a capacity of 940 MMcfd (9.8 MMThd), interconnects with the Rosarito pipelines system in the Tijuana area and extends north to interconnect with the Company's affiliate SDG&E's system at the Mexico–U.S. border in Otay Mesa and southwest to the Mexican Federal Electricity Commission's 1,300 MW Presidente Juárez power plant in Rosarito, Baja California. This pipeline system includes a 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 Marketing (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 SDG&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	512 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 SDG&E's pipeline system in Otay Mesa, California.	June 19, 2008	20 years	380 MMcfd (maximum daily quantity)

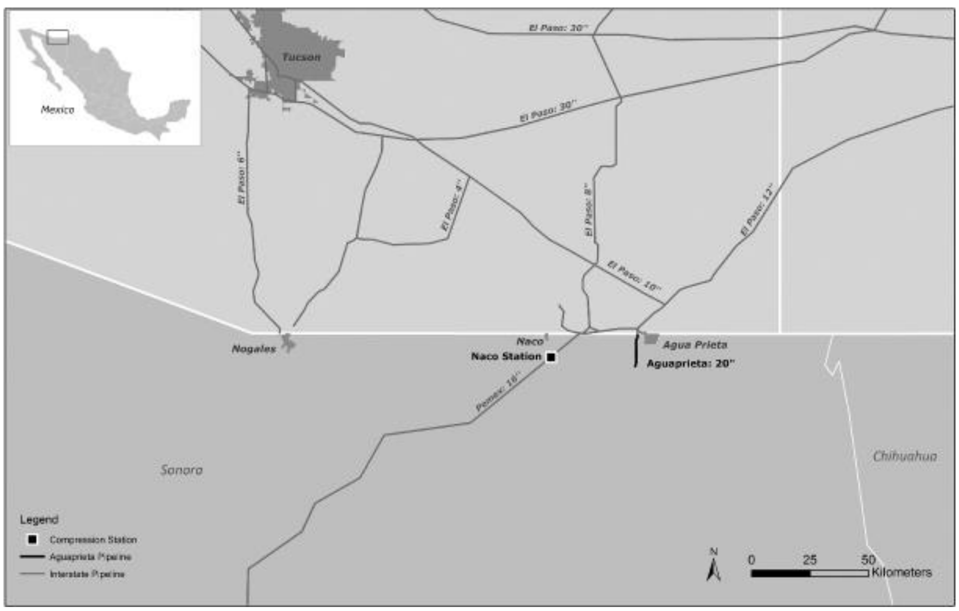
(1) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under this contract in the amount of USD$45.6 million. IEnova Marketing currently utilizes its contracted capacity to transport natural gas it provides to the Mexican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

Aguaprieta Pipeline

The Company's Aguaprieta pipeline transports natural gas for its main customer, Kinder Morgan, from the interconnection of Kinder Morgan's Willcox Lateral pipeline, located at the Mexico–U.S. border, to the Fuerza y Energía Naco–Nogales combined-cycle power plant located southeast of the city of Agua Prieta, Sonora, which provides electricity to the 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 firm transportation services contracts in force between the Company and the Aguaprieta Pipeline system represent 122 mmpfd (1.3 mmthd), equivalent to 61% of the system's installed capacity. Among these contracts is a firm transportation services contract with the CFE, signed in September 2013, for 67 mmpfd (0.7 mmthd), which is renewed every year after an initial period of two years. This contract supplies a combined cycle generation plant fired with gas from Agua Prieta II, which is expected to start operations during the first quarter of 2017. In addition, in October 2013 the Company signed a firm, six-year transportation services contract with El Paso Marketing for 2 mmpfd (0.3 mmthd). This system was built contemplating the possible construction by the CFE of two additional energy generating plants in the same territory (one of them being Agua Prieta II).

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



Naco Compression Station

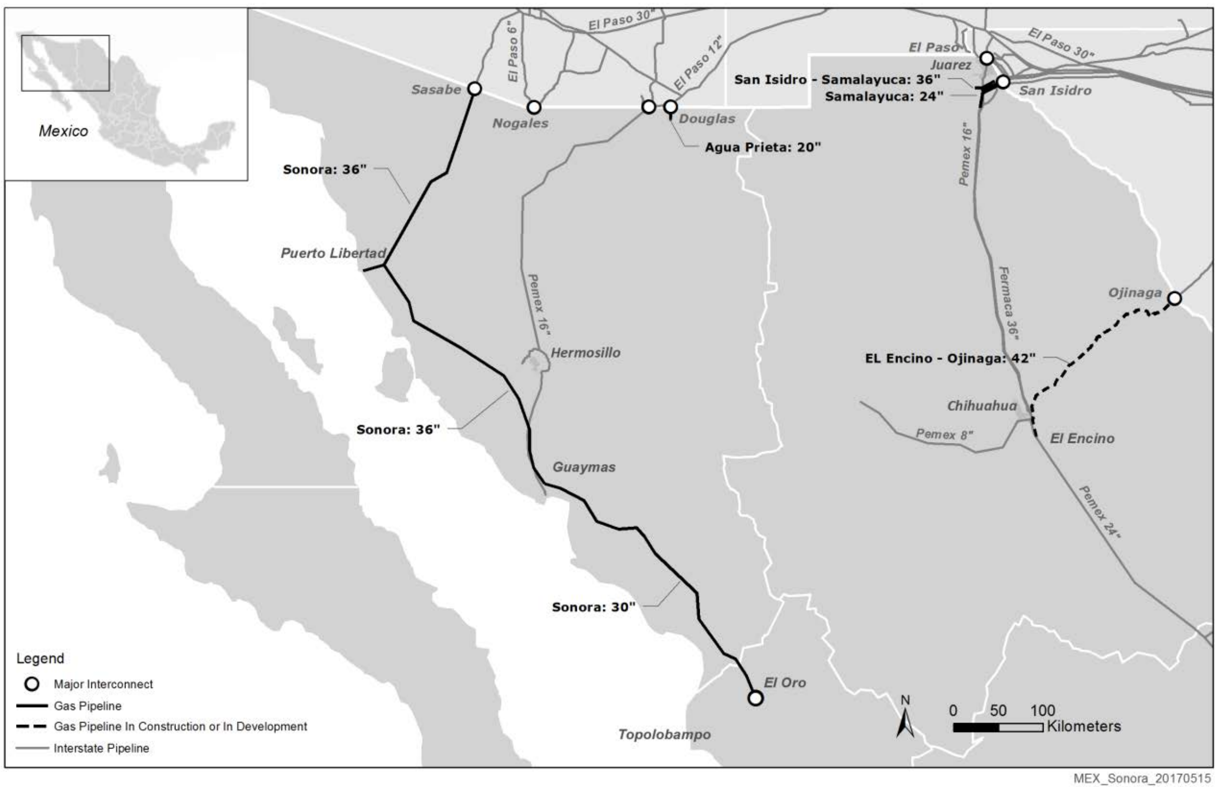
The Company's Naco compression station consists of a 14,340 horsepower compressor installed on Pemex TRI's Naco–Hermosillo natural gas pipeline in Naco, Sonora. The Company has in place a compression services agreement with Pemex TRI under which Pemex TRI has 90 MMcfd (0.9 MMThd) of compression services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

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

Sonora Pipeline

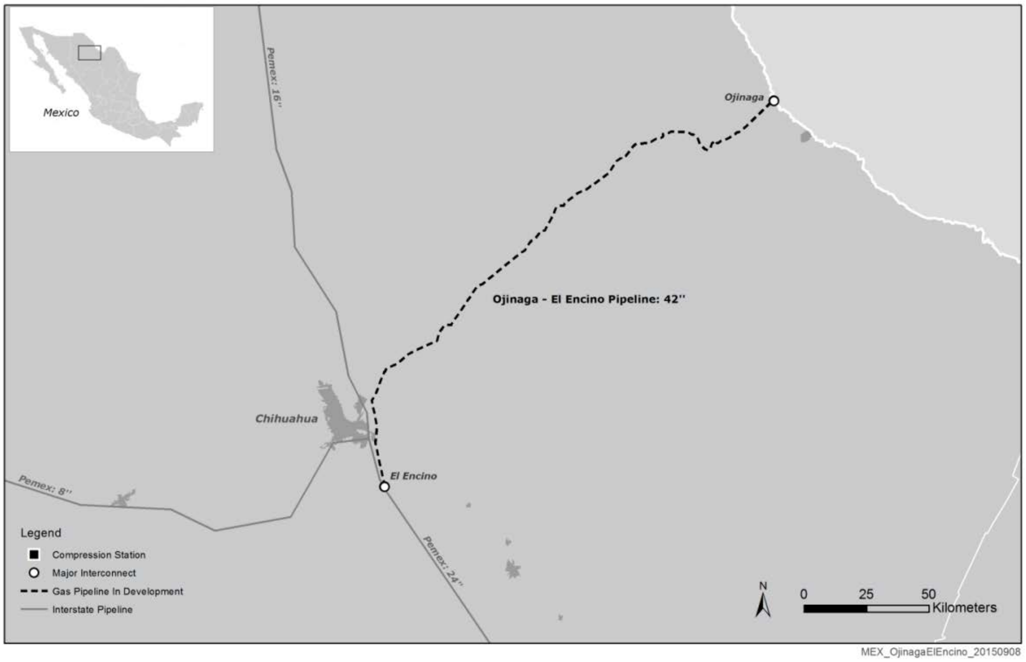
In October and November 2012 the Company entered into two natural gas transportation service agreements with the Mexican Federal Electricity Commission. In connection with these agreements, the Company is building the Sonora pipeline in the states of Sonora and Sinaloa, which will be approximately 835 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). The Company has completed the construction of and have begun deriving revenues from the Sásabe–Puerto Libertad–Guaymas segment. The second or Guaymas–El Oro is scheduled to begin operation during the second quarter of 2017. 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:



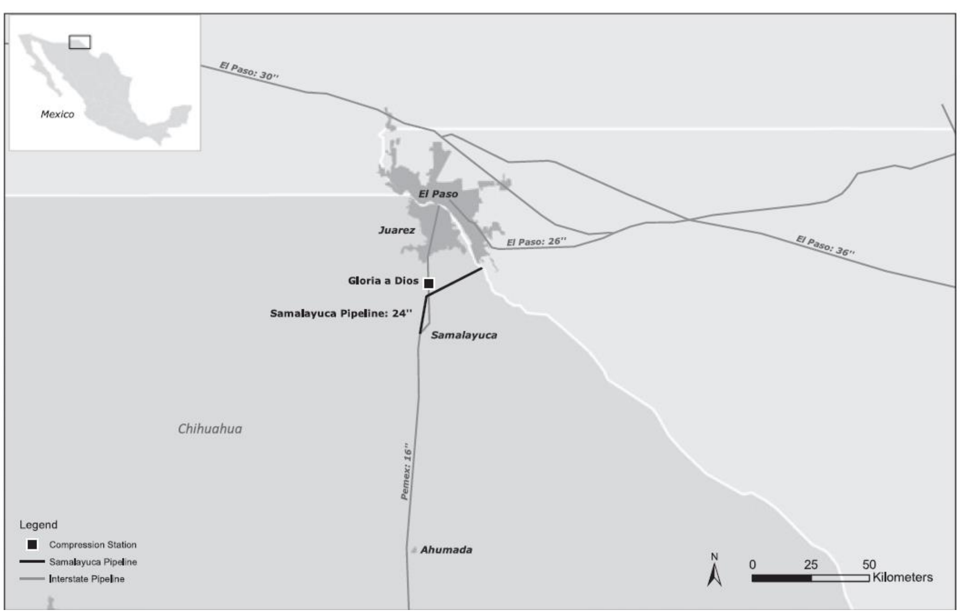
Ojinaga–El Encino Pipeline

In December 2014 the Company 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 second quarter of 2017. The following map shows the location of the Ojinaga–El Encino pipeline:



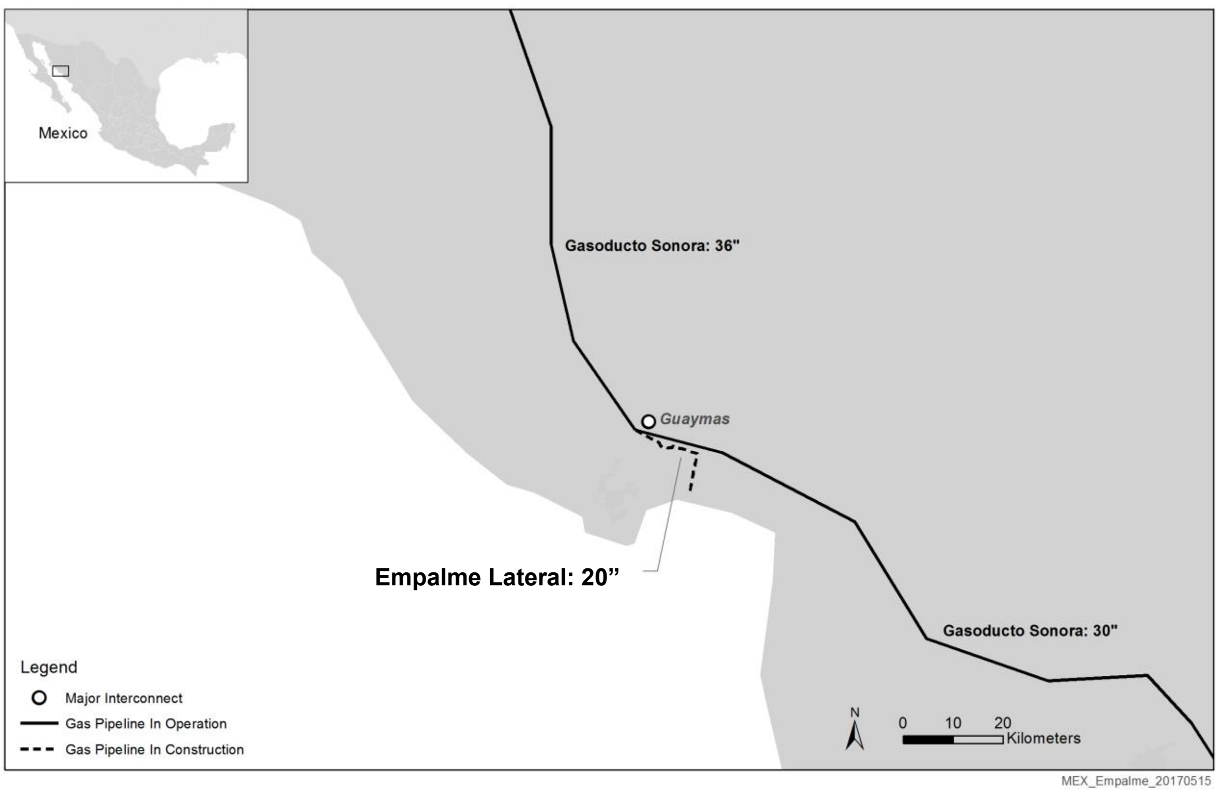
San Isidro–Samalayuca Pipeline

In July 2015 the Company 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 header with a capacity of 3,000 MMcfd (31.2 MMThd), which will serve as an interconnection point for several other pipeline systems. The Mexican Federal Electricity Commission will be the sole customer of this system under the firm transportation services agreement. The Company estimates the capital expenditures for the San Isidro – Samalayuca pipeline to be approximately USD$109 million. The system, located in Ciudad Juárez, Chihuahua, started operations in March 2017. The following map shows the route of the San Isidro–Samalayuca pipeline:



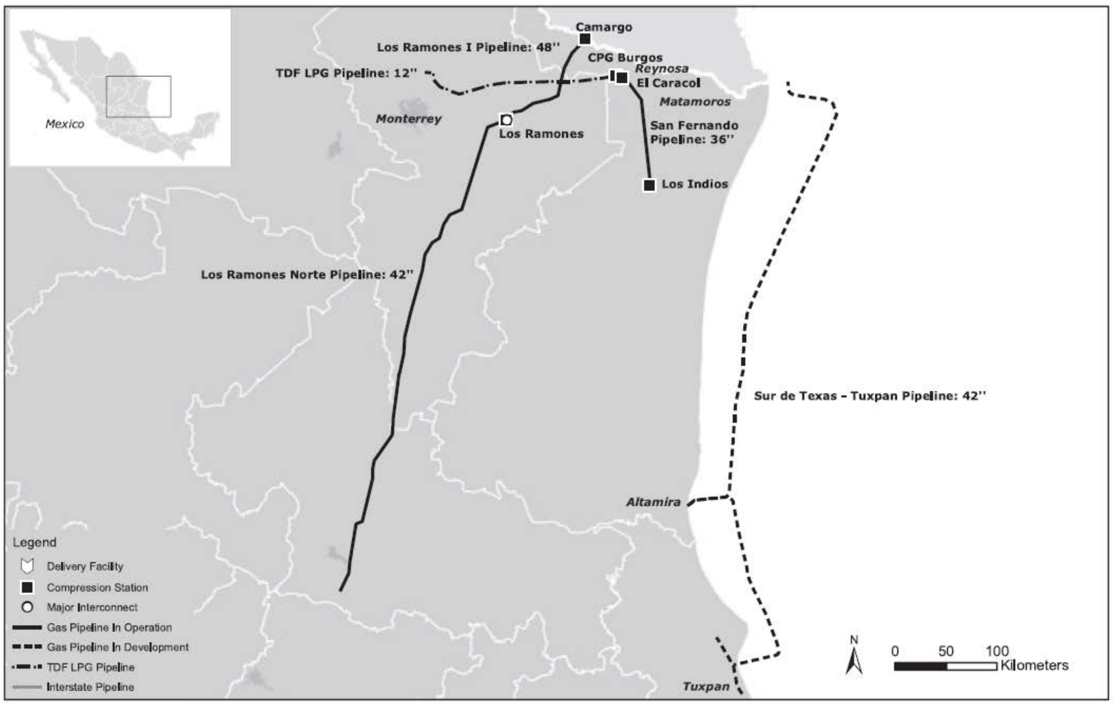
Empalme Lateral Pipeline

In May 2016, the Company was awarded a natural gas pipeline from the Mexican Federal Electricity Commission with respect to the Empalme Lateral in the State of Sonora. This 20-inch natural gas pipeline with capacity of 226 MMcfd (2.4 MMThd) will run approximately 20 km between Empalme and Guaymas, where it will interconnect with Sonora pipeline project, and will be developed by the Company pursuant to a 21-year firm transportation services agreement entered into between the Company and the Mexican Federal Electricity Commission. Pursuant to this agreement, the Company shall be responsible for the development, engineering, procurement, construction, operation and maintenance of the pipeline. The Company expects to commence commercial operation of this pipeline during the second quarter of 2017. The Company estimates the capital expenditures for the Empalme Lateral pipeline to be approximately USD$12 million. The following map shows the route of the Empalme Lateral pipeline:



South of Texas – Tuxpan pipeline

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



Gasoductos de Chihuahua

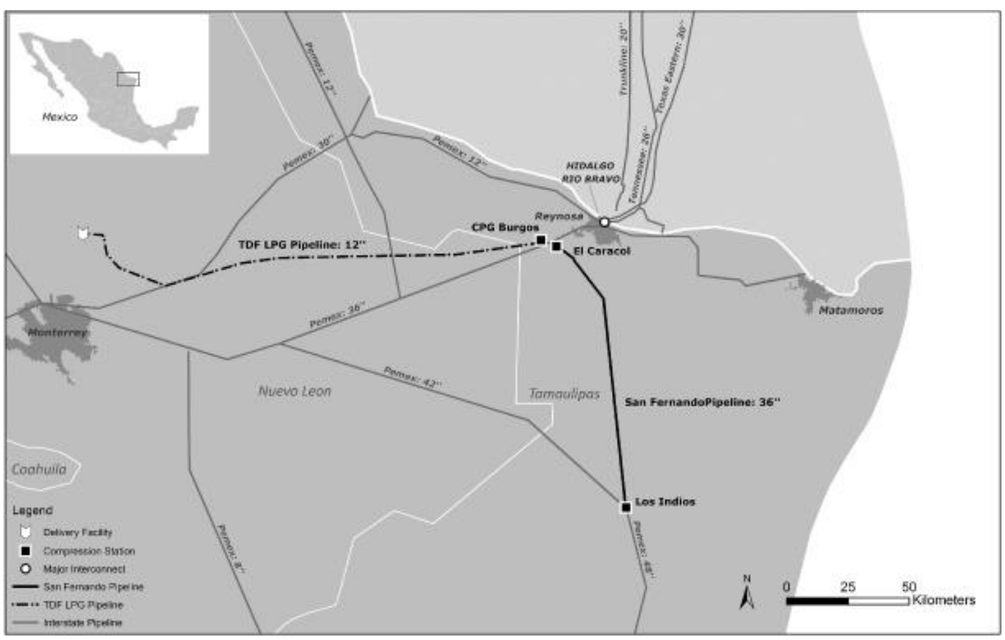
Gasoductos de Chihuahua owns the San Fernando pipeline, the Samalayuca pipeline, the Ethane pipeline, the TDF pipeline system, the Los Ramones I pipeline and the Gloria a Dios compression station. In addition, Gasoductos de Chihuahua owns the Guadalajara LPG storage facilities and, through Ductos y Energéticos del Norte's interest in the TAG Norte joint venture, a 25% indirect interest in the Los Ramones Norte pipeline. The Company acquired a 50% interest in Gasoductos de Chihuahua from El Paso Corporation in April 2010 and operated it as a 50/50 joint venture with Pemex TRI until the Company acquired the remaining 50% interest from Pemex TRI on September 27, 2016. Gasoductos de Chihuahua's operations include a total 267 km of natural gas pipelines, as described below.

San Fernando pipeline

Gasoductos de Chihuahua's San Fernando pipeline consists of approximately 114 km of 36-inch diameter pipeline and two compression stations with an aggregate of 95,670 horsepower. It has a transportation capacity (including compression) of 1,460 MMcfd (15.2 MMThd). The pipeline runs from its El Caracol compression station in Reynosa, Tamaulipas to its Los Indios compression station in San Fernando, Tamaulipas. This bi-directional pipeline increases the capacity and improves the reliability of Pemex TRI's natural gas system. The San Fernando pipeline system is operated by Pemex TRI under an operation and maintenance agreement with Gasoductos de Chihuahua.

The San Fernando pipeline's sole customer, Pemex TRI, has 100% of the system's designed transportation capacity, contracted on a firm basis. Pemex TRI also uses the extra compression capacity on this pipeline pursuant to an interruptible transportation services contract. 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 is extendable for a five-year period at the customer's option. On January 1, 2016, Pemex TRI assigned its rights under the San Fernando Pipeline transportation agreement and the operation and maintenance services agreement to CENAGAS.

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



Samalayuca pipeline

Gasoductos de Chihuahua's Samalayuca pipeline consists of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd). The Samalayuca pipeline, in operation since 1997, was the first privately-owned natural gas pipeline in Mexico. The pipeline runs from Ejido San Isidro to the 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. The Samalayuca pipeline is operated by Pemex TRI under an operation and maintenance agreement between Pemex TRI and Gasoductos de Chihuahua.

The existing firm transportation services agreements with the Samalayuca pipeline's customers have 140 MMcfd (1.5 MMThd) contracted on a firm basis. The following table sets forth certain characteristics of the Samalayuca pipeline's firm transportation services agreements:

Customer	Purpose	Execution Date	Term	Contracted Capacity
Pemex TRI	Transportation of natural gas from an interconnection point at the Mexico–U.S. border in Ejido San Isidro, Chihuahua to various interconnection points with Pemex TRI's pipeline system.	December 11, 2009	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

Gasoductos de Chihuahua's Gloria a Dios compression station consists of a 14,300 horsepower compressor installed at the interconnection point of the Company's Samalayuca pipeline and Pemex TRI's Ciudad Juárez—Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. Under a compression and transportation services agreement with the Mexican Federal Electricity Commission, the compression station's sole customer, the Company has 60 MMcfd (0.6 MMThd) of compression services contracted on a firm basis. The Mexican Federal Electricity Commission pays for these services based on a rate established by the Mexican Energy Regulatory Commission.

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

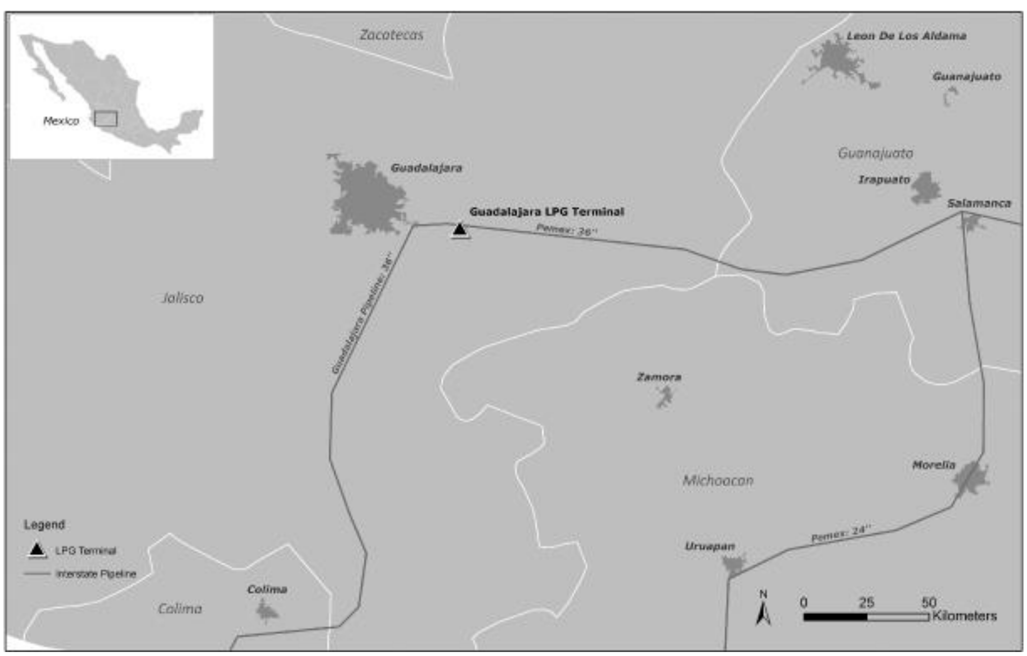
TDF LPG Pipeline

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

Guadalajara LPG terminal

Gasoductos de Chihuahua's 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara, Jalisco consists of four storage tanks, each with a capacity of 20,000 Bbl (1.1 MMTh), ten loading bays and an interconnection to Pemex TRI's separately-owned LPG pipeline system. The facility was completed in December 2013 and replaced an LPG storage facility owned by Pemex TRI that was located within Guadalajara. The facility is operated by Pemex TRI and serves the Jalisco market. The Company has entered into an LPG Storage Services Agreement with Pemex TRI, as a counterparty, pursuant to which the joint venture provides storage services to Pemex TRI utilizing the full capacity of the terminal. Under the terms of this agreement Gasoductos de Chihuahua receives LPG from Pemex TRI at the 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 the facility's use, and a variable fee based upon its actual monthly use of the services of the terminal. This agreement has a 15-year term and expires in 2028.

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



Ethane Pipeline

In December 2012, Gasoductos de Chihuahua executed an ethane transportation services agreement with Pemex TRI to construct and operate an approximately 224 km pipeline with a designed transportation capacity of up to 33 MMcfd (0.6 MMThd) in the first segment, up to 100 MMcfd (1.8 MMThd) in the second segment and up to 106 MMcfd (1.9 MMThd) in the third segment that supplies ethane from the Pemex processing plants located in the states of Tabasco, Chiapas and Veracruz to the Etileno XXI ethylene and polyethylene plant located in the state of Veracruz. The initial segment of this pipeline began commercial operation in January 2015, the second segment began commercial operation in July 2015 and the third segment began commercial operation in December 2015. Pemex TRI is the sole customer of this pipeline under a 21-year U.S. dollar-denominated take-or-pay capacity agreement, which is indexed to inflation.

Los Ramones I pipeline

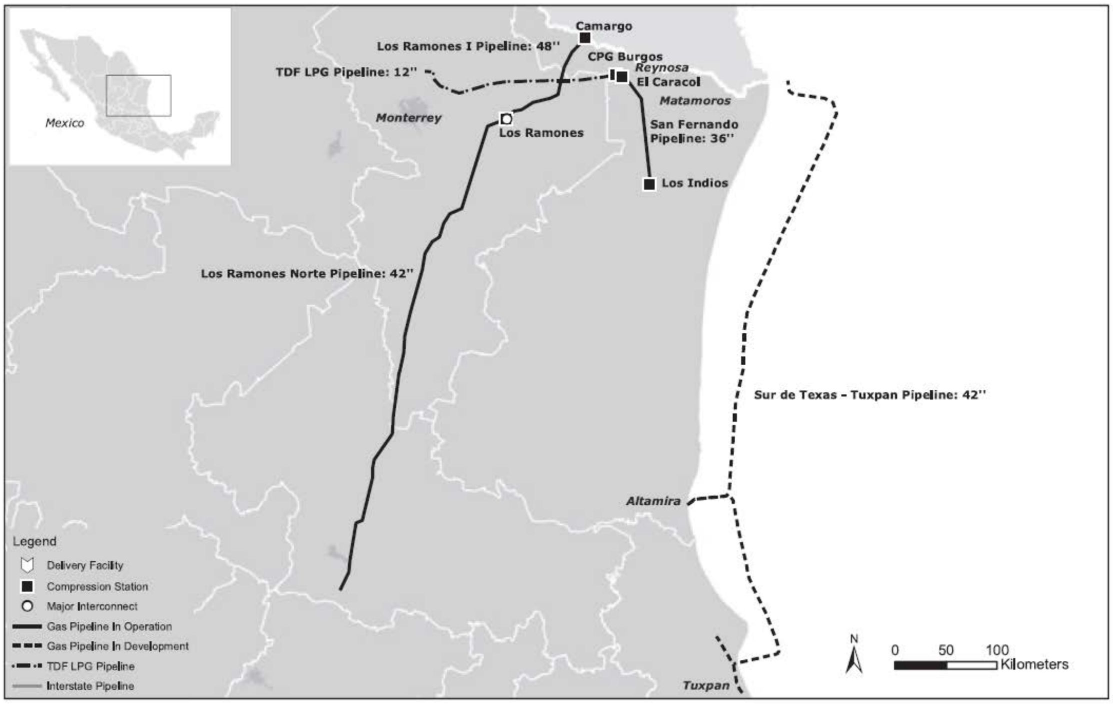
In July 2013, Gasoductos de Chihuahua executed a natural gas firm transportation services agreement with Pemex TRI to construct and operate an approximately 116 km, 48-inch diameter pipeline with a designed transportation capacity of 2,100 MMcfd (21.8 MMThd) and two compression stations, which transport natural gas from the northern portion of the state of Tamaulipas bordering the United States to the interconnection points with the Los Ramones Norte Pipeline and the national gas pipeline system in Los Ramones in the State of Nuevo León. It includes two compression stations (the Frontera station, located near Camargo City, Tamaulipas, with approximately 61,500 horsepower, and the Ramones station, located near Los Ramones, Nuevo León, with approximately 61,500 horsepower) that began operations in December 2015. CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline under a 25-year firm transportation services agreement. The Company finished construction of the Los Ramones I pipeline in December 2014 and it entered into commercial operation during the same month.

Los Ramones Norte pipeline

In March 2014, Ductos y Energéticos del Norte entered into a shareholders' agreement with affiliates of Pemex to set up an additional joint venture, which the Company refers to as the TAG Pipelines Norte joint venture, for the construction and operation of the Los Ramones Norte pipeline, in which DEN participation is 50%. As of December 31, 2016, the Company has invested USD$80.5 million in the project, through four four-year loans denominated in U.S. Dollars, bearing interest at a variable rate in accordance with 30–day Libor plus 450 basis point (5.12% as of December 31, 2016). In addition, each partner in the joint venture has the right of first refusal and tag-along right in case another partner wishes to alienate its participation to a third party.

In December 2015, TETL, a subsidiary of BlackRock and First Reserve, acquired a 45% stake in the joint TAG Pipelines Norte joint venture from P.M.I. Holdings B.V., an affiliate of Pemex. DEN continues to own 50% of the joint business TAG Pipelines Norte, Pemex TRI, through one of its subsidiaries owns 5% and TETL owns 45% of the joint business TAG Pipelines Norte. In March 2014, the joint venture TAG Pipelines Norte entered into a 25-year natural gas firm transportation services agreement with Pemex TRI, which transferred the contracts to CENAGAS, to construct and operate a pipeline an approximately 452 km, 42-inch diameter pipeline with a designed transportation capacity of 1,420 MMcfd (14.8 MMThd) and two compression stations, which connects with the Los Ramones I pipeline and the Los Ramones Sur pipeline in San Luis Potosí. CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline. The Los Ramones Norte Gas Pipeline began commercial operations in February 2016. The Los Ramones Norte Gas Pipeline investment is approximately USD$1.4 billion.

The following map shows the route of the Los Ramones Norte pipeline:



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

The corporate governance of the Company's joint venture with Pemex TRI is conducted pursuant to the terms of the by- laws of Ductos y Energéticos del Norte, the entity that holds a 50% share in the TAG Pipelines Norte joint venture. Once TETL, JV México Norte, S. de R.L. de C.V. (a corporation whose shareholders are jointly BlackRock and First Reserve) consolidates its shares in the TAG Pipeline Norte joint venture, the remaining 50% of the joint venture with TAG Pipelines Norte will be held by BlackRock and First Reserve, who will jointly hold a 45% share, while Pemex TRI, will hold 5%. The following is a summary of the material terms of the by-laws of Ductos y Energéticos del Norte:

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

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

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

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

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

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

In March 2015 DEN, Pemex TRI and TETL JV México Norte, S. de R.L. de C.V. signed an agreement (the "TAG Pipelines Norte Contract") for their participation in TAG Pipelines Norte and the Los Ramones Norte Pipeline. Following is a description of the most important terms of the TAG Norte Contract:

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

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

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

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

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

Corporate structure of IMG, the joint venture with TransCanada

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

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

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

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

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

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

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

LNG Business

Overview

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

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

LNG Terminal

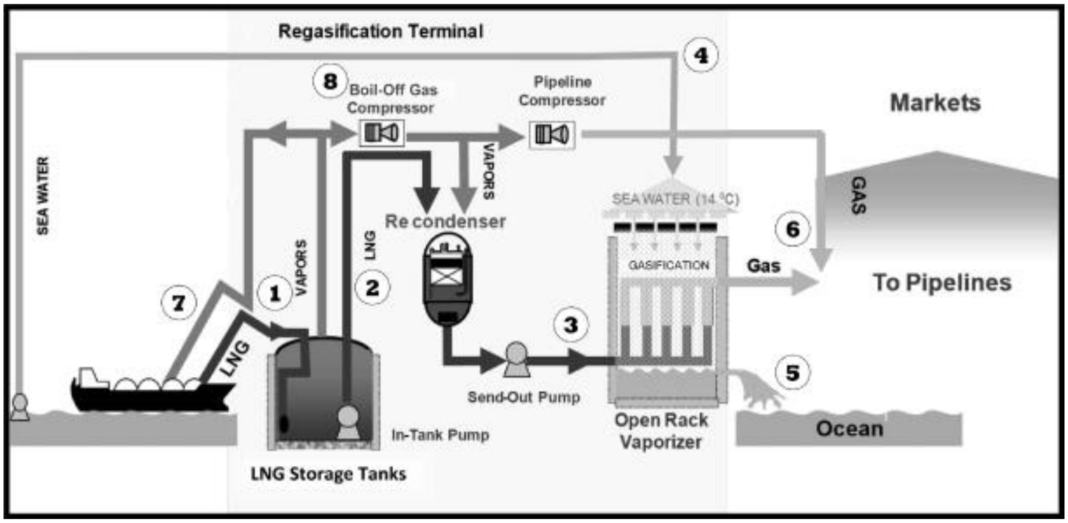
LNG is natural gas that has been cooled to approximately -160° Celsius in order to condense the gas into a liquid. Liquefaction of natural gas reduces its volume by a factor of 600, making it more feasible to transport by ship or truck.

The Company's LNG terminal consists of:

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

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

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



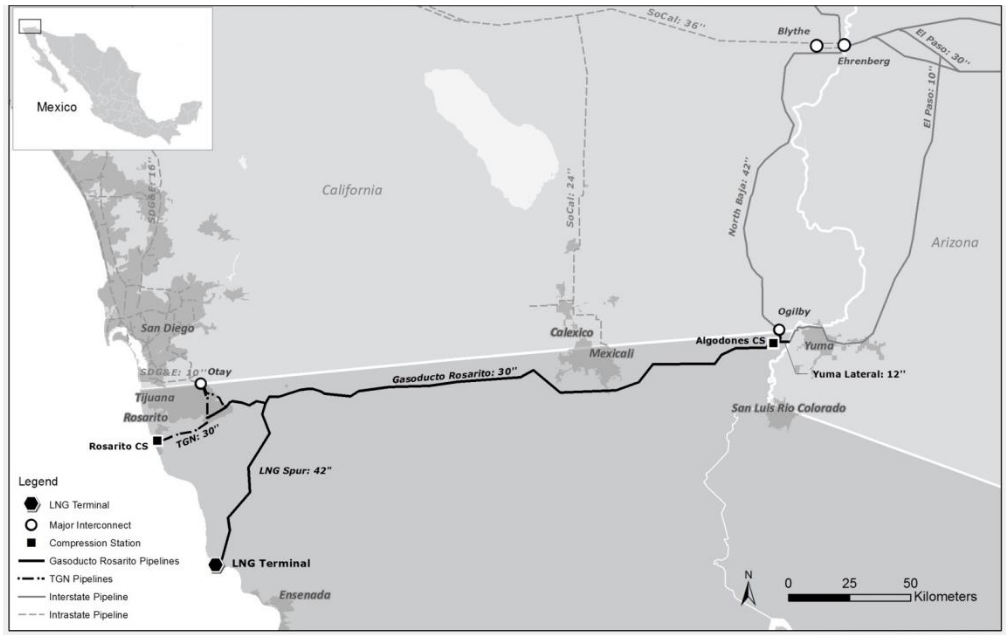
Because there is a large temperature difference between the LNG and ambient conditions, a very small portion of this LNG is continuously converting back to a gaseous state as the LNG warms. This gas is referred to as boil-off gas. As indicated in the above diagram, the boil-off gas can either be returned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

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

Internal temperature of the Company's LNG storage tanks.

In order for the Company's LNG terminal to be operational, and in order to prevent equipment damage that could be caused by the thermal expansion of certain components during warming, the internal temperature of the Company's LNG terminal'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, the Company must constantly maintain a minimum volume of LNG in the terminal. Because of current natural gas market conditions, the delivery of LNG cargoes to the LNG terminal by the capacity holders has been limited. Only one of the capacity holders, the Company's subsidiary IEnova Marketing, has delivered LNG cargoes to the terminal, which it purchases from one of the Company's U.S. 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 Marketing for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. IEnova Marketing has agreed to use reasonable efforts to deliver minimum quantities of LNG to the Company's LNG terminal. The Company's LNG terminal's customers are not otherwise obligated under the terms of their firm storage services agreements to supply minimum quantities of LNG. If the Company is unable to obtain sufficient volumes of LNG from the capacity holders to maintain the minimum required internal temperature of the Company's LNG terminal, the Company will need to secure such volumes in the open market. See "Risk Factors – Risks Relating to The Company's business and Industry – The Company may be exposed to high costs to acquire LNG in order to maintain the operations of the Company's LNG terminal."

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

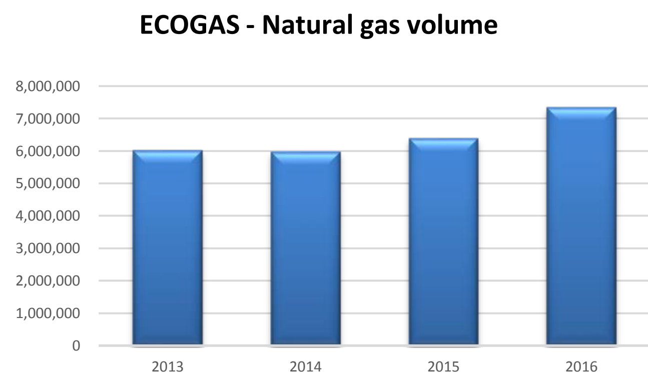


Natural Gas Distribution Business

Overview

The Company's subsidiary ECOGAS was awarded the first distribution permit 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 3,757 km of pipelines, as of December 31, 2016 the ECOGAS distribution system served in excess of 119,000 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, the Company became the first private distribution company to meet its build-out obligations to the Mexican government in terms of amount of investment and number of customers. Since the ECOGAS distribution system became operational, the Company has endeavored to market natural gas as a better alternative to LPG for industrial, commercial and residential consumption in the Company's markets. The following chart illustrates the growth in volume of natural gas sold by the distribution business over the last four years.

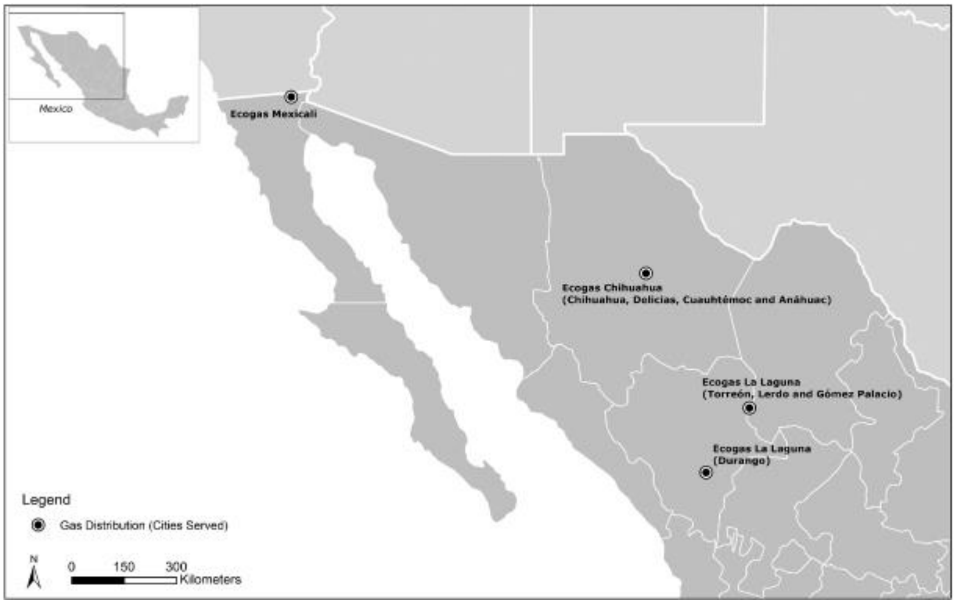


The natural gas distribution business includes the following key activities:

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

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

The following map shows the location of each of the distribution areas serviced by ECOGAS distribution 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, 2016:

	Mexicali	Chihuahua	La Laguna-Durango	Total
Length of pipelines (km)	556	2,179	1,023	3,757
Number of customers:				
Residential	15,654	70,699	30,068	116,421
Commercial/industrial	451	1,846	753	2,920
Throughput (MMcfd):				
Residential	451	3,700	835	4,986
Commercial/industrial	23,415	33,597	9,860	66,872

Natural Gas and The Company's Market Opportunity

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

Natural Gas Customer Arrangements

The Company's residential customers comprise substantially all of customers (97.6% in terms of number of accounts), and contribute 48.9% of the profit margin of the distribution business as of December 31, 2016. The Company does not typically enter into long-term agreements with residential customers, and they pay the rates for distribution services that are established by the Mexican Energy Regulatory Commission. The Company invoices these customers on a monthly basis and their service can be terminated by them or the Company at any time.

The commercial and industrial customers together comprise approximately 2.4% of customers (in terms of number of accounts), but are responsible for approximately 91.2% of systems' aggregate throughput volume and over 51.1% of the profit margin of distribution business as of December 31, 2016. The Company has entered into long-term supply agreements with certain of these customers; while the Mexican Energy Regulatory Commission sets the maximum rate the Company can charge for distribution service, the Company may negotiate a rate that is at a discount to the maximum authorized rate, in exchange for a long-term obligation from these customers to purchase contractual minimum volumes. In certain cases customers are required to provide the Company with guarantees in the form of letters of credit or cash deposits.

Power Segment Overview

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

Natural Gas Fired Power Generation Business

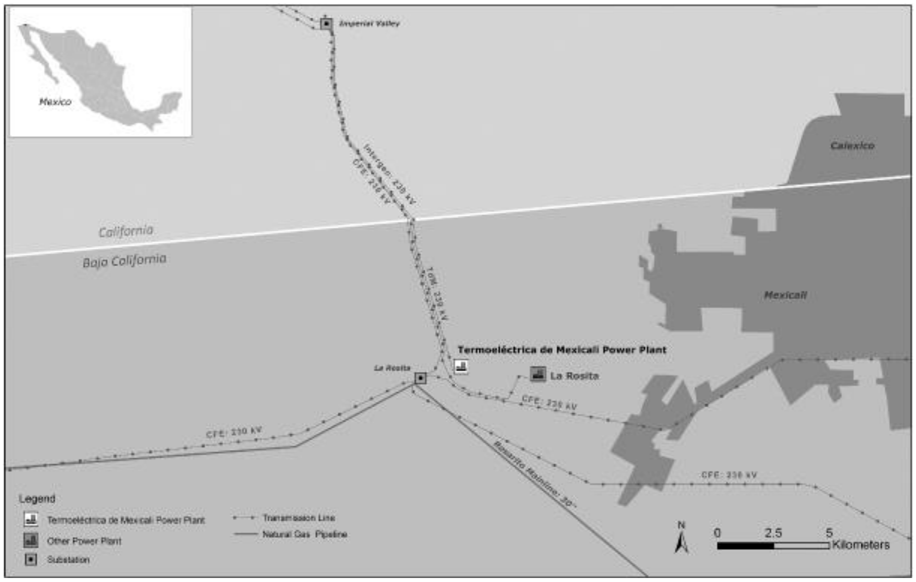
Termoeléctrica de Mexicali

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

This facility is a modern, efficient, combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and California, 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

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

Natural Gas Purchase Agreement

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

Wind Power Generation Business

Energía Sierra Juárez

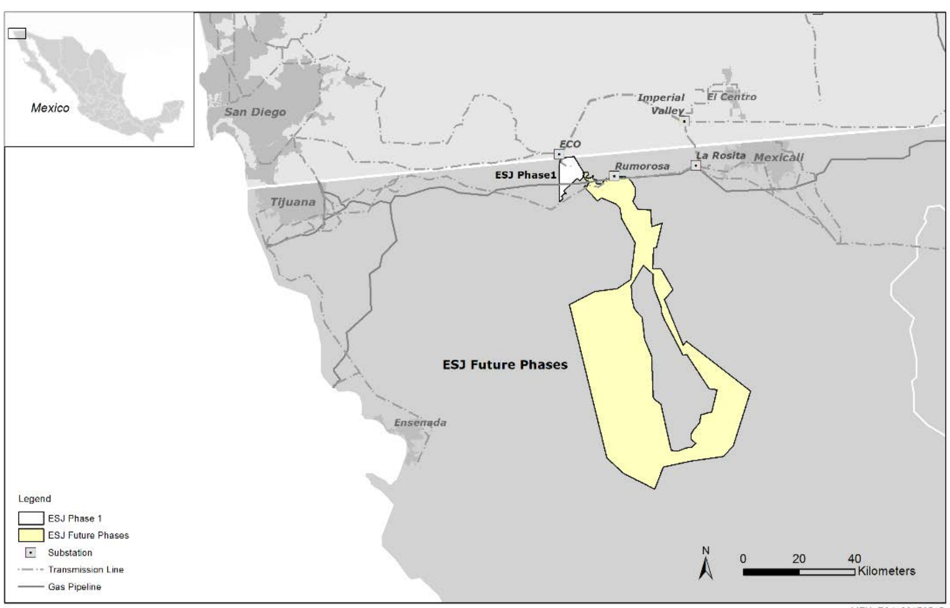
The Company has commenced development of a wind powered generation project, Energía Sierra Juárez, along mountain ridges in the Sierra de Juárez Mountains in Baja California, Mexico. This region is one of the strongest wind resources on the west coast of North America. The initial phase of this potential project is located about 112 km south of San Diego. The project is interconnected to the existing Southwest Power link at the Company's 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, the Company expects that these wind turbines will operate at a net capacity factor of between 34% and 36% (net capacity factor is a measure of the percentage of peak power a facility generates on average over an extended period of time, reflecting wind resource availability and other factors). Electricity generated from the initial phase of Energía Sierra Juárez is sold entirely to the Company's affiliate SDG&E pursuant to a 20-year power purchase agreement. 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. The Company expects to begin operations in the first half of 2015. The initial phase of this project required a total investment of approximately USD$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 the Company sold a 50% interest in the initial phase of this project to certain affiliates of InterGen.

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

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

Sale of Partnership Interest to InterGen

In April 2014, the Company entered into an equity purchase and sale agreement with InterGen pursuant to which the Company sold a 50% interest in the first phase of the Energía Sierra Juárez project to InterGen, thereby creating a 50/50 joint venture between us. The Company accounts for this joint venture under the equity method. As a condition to the sale of this equity interest the Company and InterGen entered into the joint venture agreements described below. In addition, the joint venture assumed the remaining obligation to the Company on a previous intercompany loan to the Energía Sierra Juárez project, which had a principal balance and interest outstanding at December 31, 2016 of USD$14.3 million. The loan accrues interest at a rate equal to 30-day LIBOR plus 637.5 basis points (7.00% as of December 31, 2016).

Project Financing Agreement

In June 2014, Energía Sierra Juárez, S. de R. L. de C. V., the Company's joint venture in charge of developing the first phase of the Energía Sierra Juárez wind power generation operation, entered into a USD$239.8 million project financing facility. The project financing facility was entered into with a group of five banks: Mizuho Bank, Ltd., as coordinating lead arranger, the North American Development Bank as technical and modeling bank, and Nacional Financiera, S.N.C. Institución de Banca de Desarrollo, Norddeutsche Landesbank Girozentrale, New York Branch and Sumitomo Mitsui Banking Corporation as lenders.

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, 2016, Energía Sierra Juárez had USD$227.4 million and letters of credit totaling USD$25.4 million outstanding under or in connection with this loan.

Joint Venture Agreements

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

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

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

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

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

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

Ventika

In December 2016, the Company acquired 100% of the equity interests of Ventika. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border. Powered by 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. Price was USD$434.7 million including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. The following map shows the location of Ventika:

Previous partners, Fisterra Energy, a fund from Blackstone Enery Partners and Cemex, an international company, jointly developed the Ventika wind power generation facilities, which began operations in April 2016. For a description of Ventika's construction financing, see: "Management's Discussion and analysis of Financial Condition and Results of Operations - Liquidity and Financing Sources - Ventika Credit Agreement and Project Financing."

Currently, an affiliate of Acciona, a leading global company in the development and management of renewable energy assets, provides operation and maintenance services to the facilities, in accordance with the operation and maintenance contracts within five years, which will be renewed automatically for equal periods until 20 years of service. Asset management services are provided by CEMEX in accordance with asset management agreements with a term of five years, which are renewed automatically for equal periods.

Substantially, the entire energy capacity of the Ventika wind power generation facilities is contracted under 20-year power supply contracts and with private companies that have stable credit rating. Among the customers of the Ventika power plant, are subsidiaries, affiliates and / or related parties of FEMSA, CEMEX, DEACERO, Fiat Chrysler Automobiles, N.V., and Tecnológico de Monterrey. Energy supply contracts are mainly denominated in U.S. Dollars, at fixed prices, with certain agreements including annual increases.

Key Arrangements

Power Purchase Agreement

Ventika has power supply agreements that, when considered jointly, constitute agreements to purchase 100% of the capacity of the wind farms (as of this date) for 20 years counted from April, 2016. Such agreements have been entered into with subsidiaries, affiliates and related parties to each of Femsa, Cemex, FCA, Deacero and Tecnológico de Monterrey. The agreements are denominated in U.S. Dollars at fixed prices, and with a clause of annual increase of 2.5%, except for the backstop agreements. FCA and Tecnológico de Monterrey Agreements have a 10 year effective term; however, Cemex has granted support agreements for the years 11 to 20, equal to 29% of the total energy generated during those years.

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

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

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

Operation and Maintenance Agreement

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

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

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

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

Asset Management Agreement

Ventika maintain an asset management services agreement with Cemex. Through each of these agreements, Cemex agrees (i) to render management and surveillance services over the assets, inventory, accounts receivable, invoicing and other assets and services; (ii) to cause the performance of the principal agreements executed by Ventika, including those for engineering, procurement and construction, operation and management, financing, interconnection, communication and management of financial issues with lenders, management of the self-supply and, power supply agreements, etc. The term of this agreement is of 5 years starting from the commercial operation date of each agreement (April 2016), with automatic renewal for a period of 5 years. Each of these Agreements can be terminated by Ventika without cause under the terms agreed therein, which include a partial payment of the agreed rates.

Credit Agreement, project finance

For the construction and start of operations of the wind farms, each of Ventika I and Ventika II obtained a senior project finance loan for the total aggregate amount of USD$485 million. Creditor banks are: NADB, Banobras, Nafinsa, Bancomext, and Santander México.

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

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

In addition, Ventika contracted specific financing for the recovery of the VAT as a result of the construction costs for the projects. This financing has been paid in full.

Real Property and Land-Use Rights

Gas Segment

Pipelines Business

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

LNG Business

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

Natural Gas Distribution Business

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

Power Segment

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

With respect to Energía Sierra Juárez wind project, the Company has 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. The Company 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 the Company has built the initial phase of this project. The Company 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). The Company 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 the Company's property and may be removed at the end of the lease. The Company also holds a right of first refusal to purchase the land in the event of an intended sale by the lessors. Each lease is for an initial term of 30 years and may be renewed for an additional 30-year period, except as described below.

The Ejido Jacume lease provides for a monthly rent of USD$2,000 through the project's commencement of commercial operation and 4.0% of the Company's gross revenues from operations on the property thereafter.

Under the Ejido Cordillera Molina lease, the Company made an upfront payment of approximately USD$0.8 million and must pay quarterly rent of USD$30,000 through the tenth anniversary of the lease or until the commencement of commercial operation on the property, whichever occurs first. The Company will be required to pay an additional USD$1.5 million upon groundbreaking for the development of up to 250 MW of capacity, and USD$0.3 million upon groundbreaking for the development of each additional 100 MW of capacity. Upon commencement of commercial operation on the property the Company will be required to pay rent in an amount equal to 3% of its gross revenues from operations on the property. If the Company does 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. This contract will be terminated automatically in the first half of 2017, due to the construction or operation of the subsequent phase of Energía Sierra Juárez not being started.

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

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

Insurance

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

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

xi) Legal, Administrative and Arbitration Proceedings

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

<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 2010, 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, the Company reports the following:

On February 19, 2015, a Collegiate Court ruled favorably to ECA’s interests, denying the constitutional claim filed by Vista Golf against the ruling of the Federal Court of Tax and Administrative Justice, also issued in favor of ECA’s interests.

Therefore, on April 24, 2015, the Federal Court of Tax and Administrative Justice concluded the nullity trial fully and the judgment issued in favor of ECA is in consequence definitive.

c. *Motion for review against MIA of ECA's Terminal, filed by Inmuebles Baja 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. In September 2016, the Collegiate Court resolved the matter definitively, confirming the decision of the District Judge in favor of ECA.

e. *Municipal claim filed by 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 ungrounded.

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

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 as of December 31, 2015 had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.

h. *Motion for review against the 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.

i. On September 8, 2016, in the First Collegiate Court of the XV Circuit, unanimously and definitively overruled the resolution previously issued by the Third District Court and Federal Proceedings of Baja California, in connection with the constitutional appeal filed by Sánchez Ritchie in which he challenged the effectiveness of all permits and authorizations related to the construction and operation of the natural liquefied gas storage and regasification terminal property of its subsidiary ECA, located at Ensenada, Baja California. On October 19, 2016 Sanchez Ritchie overruled resolution on the constitutional appeal was ratified by the corresponding authorities, closing this case.

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.

CAPITAL STOCK

xii) Shareholders' equity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DIVIDENDS AND DIVIDEND POLICY

xiii) Dividends

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

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

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

During the three-year period ended December 31, 2016, 2015 and 2014, the Company paid dividends on three occasions:

- On August 9, 2016, in the amount of USD$140.0 million;
- On August 6, 2015, in the amount of USD$170.0 million; and
- On July 31, 2014, in the amount of USD$164.0 million.

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

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

3) Financial Information

a) Selected Financial Information

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

The Company derived the consolidated statements of income data for the years ended December 31, 2016, 2015 and 2014 and the consolidated statements of financial position data as of December 31, 2016, 2015 and 2014 from its audited financial statements included elsewhere in this report. You should read this data together with the Company's audited financial statements and related notes included elsewhere in this report and the information under the captions "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Statements of Profit

(in thousands of U.S. Dollars)	Year ended December 31,		
	2016	**2015**	**2014**
Revenues	717,894	613,041	738,830
Cost of revenues	(237,789)	(257,226)	(409,635)
Operating, administrative and other expenses	(104,754)	(81,857)	(78,658)
Depreciation and amortization	(64,384)	(52,470)	(46,728)
Interest income	6,269	6,701	3,187
Finance (cost) income	(20,836)	(9,859)	1,379
Other gains (losses), net	2,168	(11,426)	4,059
Remeasurement of equity method investment	673,071		
Profit before income taxes and share of profits of joint ventures	**971,639**	**206,904**	**212,434**
Income tax expense	(147,158)	(94,237)	(102,856)
Share of profits of joint ventures, net of income tax	42,841	42,319	23,346
Profit for the period from continuing operations	**867,322**	**154,986**	**132,924**
(Loss) gain for the period from discontinued operations, net of income tax	(112,332)	(14,797)	4,010
Profit for the year	**754,990**	**140,189**	**136,934**

Consolidated Statements of Financial Position

(in thousands of U.S. Dollars)	As of December 31,		
	2016	**2015**	**2014**
Assets			
Current assets:			
Cash and cash equivalents	24,918	40,377	83,637
Short-term investments	80	20,068	30,020
Trade and other receivables, net	100,886	53,728	66,401
Assets held for sale	191,287	-	-
Other current assets(1)	127,769	111,156	145,561
Total current assets	**444,940**	**225,329**	**325,619**
Non-current assets:			
Due from unconsolidated affiliates	104,352	111,766	146,775
Finance lease receivables	950,311	14,510	14,621
Deferred income tax assets	75,999	78,965	85,758
Investments in joint ventures	125,355	440,105	401,538
Property, plant and equipment, net	3,614,085	2,595,840	2,377,739
Intangible assets	154,144	-	-
Goodwill	1,651,780	25,654	25,654
Other non-current assets(2)	5,982	14,913	2,514
Total non-current assets	**6,682,008**	**3,281,753**	**3,054,599**
Total assets	**7,126,948**	**3,507,082**	**3,380,218**
Liabilities and equity:			
Short-term debt	493,571	88,507	195,089
Due to unconsolidated affiliates	260,914	352,650	14,405
Liabilities held for sale	35,451	-	-
Other current liabilities(3)	181,738	102,184	158,056
Current liabilities	**971,674**	**543,341**	**367,550**
Non-current liabilities			
Long-term debt (4)	1,039,804	299,925	350,638
Accounts payable to related parties	3,080	38,460	38,460
Deffered income tax liabilities	489,607	261,294	232,538
Other non-current liabilities(5)	272,472	184,198	141,744
Total non-current liabilities	**1,804,963**	**783,877**	**763,380**
Total liabilities	**2,776,637**	**1,327,218**	**1,130,930**
Stockholders' Equity			
Common stock	963,272	762,949	762,949
Additional paid-in capital	2,351,801	973,953	973,953
Accumulated other comprehensive loss	(126,658)	(103,944)	(64,331)
Retained earnings	1,161,896	546,906	576,717
Total equity attributable to owners of the company	**4,350,311**	**2,179,864**	**2,249,288**
Total stockholders' equity and liabilities	**7,126,948**	**3,507,082**	**3,380,218**

(1) Other current assets include restricted cash, value added tax receivables, amounts due from unconsolidated affiliates, derivative financial instruments, current finance lease receivable, income tax receivables, natural gas inventories, carbon allowances (2015 and 2014), and other current assets.

(2) Other non-current assets include derivative financial instruments, carbon allowances (2015 and 2014), and other non-current assets.

(3) Other current liabilities include trade and other payables, other taxes payable, income tax liabilities, derivative financial instruments, other financial liabilities, provisions, carbon allowances (2015 and 2014), and other current liabilities.

(4) Long-term debt includes debt related to Ventika, Gasoductos de Chihuahua and the Notes (CEBURES).

(5) Other non-current liabilities include derivative financial instruments, provisions, employee benefits and carbon allowances (2015 and 2014).

Other Financial and Operating Data

(in thousands of U.S. Dollars)	Year ended December 31,		
	2016	**2015**	**2014**
Acquisitions for property, plant and equipment	315,810	300,090	325,484
EBITDA	**375,351**	**273,958**	**250,537**
Adjusted EBITDA	**504,021**	**391,814**	**336,890**
Adjusted EBITDA by business segment:			
Gas segment	485,454	367,224	300,558
Power segment	19,266	24,975	36,009
Corporate	(699)	(385)	323

The Company presents "EBITDA" and "Adjusted EBITDA" in this earnings report for the convenience of investors. EBITDA and Adjusted EBITDA, however, are not measures of financial performance under IFRS and should not be considered as alternatives to profit or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity.

The Company's definition of EBITDA is profit for the period after adding back or subtracting, as the case may be, (1) depreciation and amortization, (2) financing cost, net, (3) other gains or losses, net, (4) income tax expense, (5) share of profits from joint ventures, net of income tax, and for the periods presented, (6) remeasurement of equity method investment, and (7) loss for the period from discontinued operations, net of income tax.

The Company defines the JV EBITDA adjustment as the Company's share of the profit from joint ventures, after adding back or subtracting, as the case may be, the Company's share of: (1) depreciation and amortization, (2) financing cost, net, (3) other gains or losses, net, (4) income tax expense, and (5) share of profits of equity method investments, net of income tax.

The Company defines the Discontinued operation EBITDA adjustment as the loss for the period from discontinued operations, net of income tax after adding back or subtracting, as the case may be, (1) depreciation and amortization, (2) financing cost, net, (3) other gains or losses, net, (4) income tax expense, and for the periods presented, (5) impairment.

	Years ended December 31,		
(thousands of USD$)	2016	2015	2014
Gas Segment	$ 373,881	$ 274,343	$ 250,214
Power Segment	2,169	-	-
Corporate	(699)	(385)	323
EBITDA	**375,351**	**273,958**	**250,537**
JV EBITDA adjustment	130,084	110,921	55,776
Discontinued operation EBITDA adjustment	(1,414)	6,935	30,577
Adjusted EBITDA	**$ 504,021**	**$ 391,814**	**$ 336,890**

b) Financial Information by Business Segment

Segment Information

Below is a presentation of the Company's financial information by business segment, which derives from the Company's 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. The Company's reportable segments under IFRS 8, "Operating Segments" include gas segment and power segment. The Company's assets are divided between two business segments: (1) gas segment, which includes natural gas and LPG transportation through the Company's pipelines, ethane transportation for liquid and gas phases, LPG storage facility, LNG storage and regasification business, which also purchases LNG and sells natural gas to its customers, and the natural gas distribution business; and (2) power segment, which includes wind power generation through Ventika. In addition, certain revenue and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which are refered 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 the Company's revenues and results from continuing operations by reportable segment.

(thousands of USD$)	Years ended December 31,		
	2016	**2015**	**2014**
Gas			
Revenues from customers	610,329	425,618	507,312
Revenues from unconsolidated affiliates	101,998	100,821	90,871
Intersegment sales	182,542	339,850	301,870
Power			
Revenues from customers	2,930		
Corporate			
Allocation of professional services with unconsolidated affiliates	2,637	1,766	2,142
Intersegment professional services	29,484	35,527	27,468
Intersegment adjustments and eliminations	(212,026)	(290,541)	(190,833)
Total segment revenues	717,894	613,041	738,830

Segment Profit

(in thousands of U.S. Dollars)	Years ended December 31,		
	2016	2015	2014
Gas	919,219	185,313	167,331
Power*	(111,749)	(10,626)	22,400
Corporate	(52,480)	(34,498)	(52,797)
Total segment profit	**754,990**	**140,189**	**136,934**

* Includes Discontinued Operations

Assets and Liabilities by Segment

(in thousands of U.S. Dollars)	Years ended December 31,		
	2016	2015	2014
Assets by segment:			
Gas	5,716,175	2,916,917	2,684,488
Power *	1,241,689	382,763	417,601
Corporate	169,084	207,402	278,129
Consolidated total assets	7,126,948	3,507,082	3,380,218
Liabilities by segment:			
Gas	983,424	346,106	334,572
Power *	641,479	66,493	76,076
Corporate	1,151,734	914,619	720,282
Consolidated total liabilities	2,776,637	1,327,218	1,130,930

* Includes Discontinued Operations

Other Information by Segment

(in thousands of U.S. Dollars)	Property, plant and equipment Years ended December 31, 2016	2015	2014	Accumulated depreciation Years ended December 31, 2016	2015	2014
Gas	3,354,683	2,687,691	2,414,223	(424,639)	(370,690)	(326,875)
Power	677,440	450,665	447,038	(1,807)	(180,461)	(165,795)
Corporate	16,191	15,048	14,165	(7,783)	(6,413)	(5,017)
	4,048,314	**3,153,404**	**2,875,426**	**(434,229)**	**(557,564)**	**(497,687)**

(in thousands of U.S. Dollars)	Depreciation and amortization Years endedDecember 31, 2016	2015	2014	Additions to Property, plant and equipment Years ended December 31, 2016	2015	2014
Gas	60,703	50,909	45,403	692,853	308,138	291,424
Power	2,134	45	19	673,668	6,436	70,611
Corporate	1,547	1,516	1,306	1,376	1,072	1,008
	64,384	**52,470**	**46,728**	**1,368,037**	**315,646**	**363,043**

(in thousands of U.S. Dollars)	Interest income Years ended December 31, 2016	2015	2014	Finance (costs) income Years ended December 31, 2016	2015	2014
Gas	959	562	529	23,144	22,856	30,322
Power	1,151	1,451	705	(1,286)	219	1,418
Corporate	4,159	4,688	1,953	(42,694)	(32,934)	(30,361)
	6,269	**6,701**	**3,187**	**(20,836)**	**(9,859)**	**1,379**

(in thousands of U.S. Dollars)	Share of profits for joint ventures, net of income tax Years ended December 31, 2016	2015	2014	Income tax (benefit) expense Years ended December 31, 2016	2015	2014
Gas	40,284	41,485	24,769	(132,952)	(99,988)	(87,581)
Power	2,557	834	(1,423)	1,077	2,002	(505)
Corporate	-	-	-	(15,283)	3,749	(14,770)
	42,841	**42,319**	**23,346**	**(147,158)**	**(94,237)**	**(102,856)**

Revenue by Type of Product or Services

The following is an analysis of the Company's revenue by type of product or services:

(in thousands of U.S. Dollars)	Years ended December 31,		
	2016	**2015**	**2014**
Sale of natural gas	199,126	224,143	368,452
Other operating revenues	157,515	118,315	110,389
Transportation	171,459	95,520	56,915
Storage and regasification capacity	97,168	93,652	93,744
Natural gas distribution	89,722	81,411	109,330
Power generation	2,904	-	-
	717,894	**613,041**	**738,830**

Other operating revenues

In November 2009 IEnova Marketing 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 Marketing from the date of commencement of commercial operation of the Company's LNG terminal. Accordingly, IEnova Marketing entered into a transportation and storage services agreement to market the LNG.

In 2016, 2015 and 2014 LNG International did not deliver LNG to IEnova Marketing pursuant to their LNG supply contract and, accordingly, indemnified IEnova in the amount of USD$102.0 million, USD$101.0 million and USD$90.8 million, respectively, for the fixed costs associated with terminal and pipeline capacity. These payments are presented within revenues in the Company's consolidated statements of profit.

c) Material Financing Arrangements

Revolving Loan Agreement with Sumitomo Mitsui Banking Corporation

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to USD$400.0 million with a syndicate group of four banks including, Santander, Bank of Tokyo 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 Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015 the Company entered into an amended agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders, whereby it agreed to increase the amount of the line of credit under the credit agreement to a maximum aggregate in the amount of USD$600.0 million from the previously authorized maximum in the amount of USD$400.0 million. See note 21 to the Company's audited financial statements included elsewhere in this report.

Withdrawal of credit line. In July, 2016, the Company withdrew USD$380.0 million, of such credit line to be used for working capital and general corporate purposes. In December, 2016 the Company withdrew USD$375.0 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, BBVA Bancomer and Mizuho Bank, joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the credit agreement to a maximum aggregate in the amount of USD$1,170.0 million approximately from the previously authorized maximum of USD$600.0 million. On December 30, 2016 a portion of this revolving credit was paid in the amount of USD$200.0 million. As of December 31 2016, the available unused credit portion is USD$724.0 million.

The Company's obligations under the loan agreement include, among others, the following: deliver to the lenders the Company's unaudited quarterly and audited annual financial statements; give notice to the lenders of any Material Event (as defined in the agreement) that could have a Material Adverse Effect (as defined in the agreement); comply with obligations under the Mexican Securities Market Law; maintain such assets as are necessary to conduct the Company's business; maintain insurance coverage in respect of its material assets; take such actions as may be necessary for obligations under the agreement to rank at least *pari passu* with other unsecured debt; refrain from entering into any merger or consolidation, or into liquidation or dissolution; and refrain from transferring or authorizing the transfer of more than 10% of the Company's Total Assets (as defined in the agreement), with certain exceptions set forth in the agreement.

Revolving Loan Agreement with Banco Santander (México) On June 19, 2014, the Company entered into a three-year, USD$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. The Company used the proceeds from this loan to finance its working capital requirements and for general corporate purposes. During July and August of 2015, the Company disbursed the amounts of USD$76 million and USD$25 million, respectively. On August 26, 2015, the Company prepaid in full the outstanding balance of this loan.

Revolving Loan Agreement with Sumitomo Mitsui Banking Corporation On August 25, 2014, the Company entered into a three-year, USD$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. The Company used the proceeds from this loan to finance its working capital requirements and for general corporate purposes. As of December 31, 2014, the Company had made disbursements totaling USD$51 million, which were reported under short-term in the Company's financial statements since the Company intendsed to repay them within the short-term, and had USD$49 million available under this facility. On August 24, 2015, the Company prepaid in full the outstanding balance of this loan.

Value Added Tax Credit Line. On April 8, 2014, Ventika and Ventika II entered into a line of credit with NAFIN and BANCOMEXT as lenders. On December 17 2015, there was an amendment to increase the line for up to $569.4 million Mexican Pesos and $713.3 million Mexican Pesos, respectively. Interest will be accrued at the TIIE plus 250 basis points payable on a quarterly basis. The credit line under this contracts will be used to finance the VAT on the Ventika projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.

Public Offering of Notes On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013, which is the date of execution of the foreign currency swaps discussed below).

A series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion (USD$306 million), and a series of 5-year floating-rate Notes in the principal amount of Ps.1.3 billion (USD$102 million) that accrue interest at the TIIE rate plus 30 basis points.

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

The Company's obligations under the Notes include, among others, the following: comply in all material respects with the Company's reporting and disclosure obligations under the Mexican Securities Market Law, and refrain from entering into any merger or consolidation except where (i) the entity resulting from such merger of consolidation expressly agrees to assume the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an Acceleration Event (as defined in the certificates representing the Notes).

On February 15, 2013, the Company entered into certain swap agreements to hedge its exposure to changes in interest rates and to the Company's Mexican peso-denominated obligations under the Notes. These included the following:

(a) A swap agreement pursuant to which the Company replaced the fixed, Mexican peso-denominated interest rate on the Company's 10-year Notes due in 2023, with a fixed, U.S. Dollar-denominated rate. The weighted average rate in U.S. Dollars through this swap was 4.12%.

(b) A swap agreement pursuant to which the Company replaced the floating, Mexican-peso denominated interest rate on the five-year Notes due in 2018, with a fixed, U.S. Dollar-denominated rate. The weighted average rate in U.S. Dollars through this swap was 2.65%.

The aggregate notional value of these swap agreements is USD$408.3 million (Ps.5.2 billion).

These agreements have been designated as cash flow hedges.

Gasoductos de Chihuahua, Long Term Credit Agreements On December 5, 2013, GdC entered into a USD$490.0 million credit agreement with BBVA Bancomer, Bank of Tokyo, Mizuho and Nord LB, for the purpose of financing the Los Ramones I gas pipeline project. The financing was contracted for a term of 13.5 years, with quarterly capital amortizations, yielding an interest equivalent to a Libor rate of 90 days plus 200 to 275 basis points. This financing is guaranteed with collection rights for certain GdC projects. The cash provisions of this loan began in 2014.

As of December 31, 2016, the outstanding debt amounts to approximately USD$370.0 million, with the following breakdown of creditor banks:

		31/12/2016
BBVA Bancomer	$	184,999
The Bank of Tokyo Mitsubishi		73,999
Mizuho		28,177
Norinchukin		27,322
NordLB		55,500
	$	369,997

On January 22, 2014, GdC contracted financial instruments to hedge interest rate risk on total credit, exchanging LIBOR rate for a fixed rate of 2.63%.

As part of the obligations deriving from the credit, the following clauses must be complied with during the life of the loan:

Maintain a minimum stockholders' equity during the term of the loan, in the amounts indicated below:

GdC	USD$ 450 million
GDT	USD$ 130 million
TDF	USD$ 90 million

Maintain interest coverage ratio of at least 2.5 to 1 on a consolidated basis (EBITDA on interest), for the payment of interest.

As of the date of these financial statements, the Company has complied with these obligations.

Project financing for the Ventika project. On April 8, 2014, Ventika and Ventika II entered into a project finance loans for the construction of the wind projects with five banks: Santander as administrative and collateral agent, the North American Development Bank ("NADB"), and Banco Nacional de Obras y Servicios Publicos, S. N. C. Institución de Banca de Desarrollo ("BANOBRAS"), Banco Nacional de Comercio Exterior, S. N. C. Institución de Banca de Desarrollo ("BANCOMEXT"), and Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFIN") as lenders.

The credit facilities mature according to the following table, with payments due on a quarterly basis (each March 15, June 15, September 15 and December 15 until the final maturity date), starting on December 15, 2016. The credit facilities bear interest as follow:

Bank	Maturity date	Interest rate Applicable
SANTADER	3/15/2024	LIBOR + applicable margin
BANOBRAS	3/15/2032	LIBOR + applicable margin
NADB	3/15/2032	Fixed rate + applicable margin
BANCOMEX	3/15/2032	Fixed rate + applicable margin
NAFIN	3/15/2032	Fixed rate + applicable margin

The breakdown of the debt is as follows:

	12/31/16
SANTANDER	$ 113,442
BANOBRAS	90,399
NADB	140,652
BANCOMEX	70,320
NAFIN	70,320
INTEREST PAYABLE	1,130
	$ 486,263

Interest Rate Swaps. In order to mitigate the impact of interest rate changes, Ventika and Ventika II entered into four interest rate swaps with Santander and BANOBRAS; that allow Ventika and Ventika II to have almost 92 percent of the mentioned credit facilities above fixed. The swap contracts allow the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent respectively, and to receive variable interest rate (3 month LIBOR).

Loan Agreements with unconcolidated affiliates

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.*

On December 22, 2015, the Company entered into a 12-month, USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan accrues interest at equal to LIBOR plus 0.17%, payable on a quarterly basis. On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD$800.0 million with Sempra Global, in order to finance the acquisition of GdC. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, the Company repaid this Bridge Loan.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount USD$350.0 million with Semco Holdco. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, the Company repaid this Bridge Loan.

On December 27, 2016, IEnova entered into two related parties revolving credit facilities for USD$20.0 million with Peruvian Opportunity Company S. A. C. and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated, have a twelve-month term, with an option to be extended up to four years in order to finance working capital needs and general corporate purposes.

As of December 31, 2016, 2015 and 2014, and as of the date of this report, the Company was in compliance with its payment obligations under each of the loans described above.

See "Liquidity and Capital Resources – Outstanding Indebtedness."

d) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the information below together with the Company's audited financial statements as of and for the years ended December 31, 2016, 2015 and 2014, as well as the other financial information included elsewhere in this report. The Company's audited financial statements were prepared in accordance with IFRS as issued by the IASB.

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may vary materially from those discussed in such forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this report.

The Company's business Segments

The Company's assets are divided between two business segments:

- Gas segment, which includes natural gas, ethane and LPG transportation through the Company's pipelines and storage of LPG, natural gas compression, LNG storage, and purchase, sale and distribution of natural gas;

- Power segment, which includes a natural-gas-fired, combined-cycle power generation facility and two wind powered generation facilities: Ventika in Nuevo Leon, acquired in December 2016 and Energía Sierra Juárez, the joint venture located in Baja California.

In addition, certain revenue and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which the Company refers to as corporate. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

The Company's pipelines business owns and operates systems for receiving, transporting, storing and delivering natural gas, LPG and ethane, including more than 2,900 km of natural gas pipelines (of which approximately 1,393 km were under construction as of December 2016). Of these, 1,584 km of pipeline are presently in operation; 224 km of ethane pipelines, 190 km of LPG pipelines, ten natural gas compression stations in operation and four under construction with an aggregate of over 586,310 horsepower, and an 80,000 Bbl (4.4 MMTh) LPG storage facility near Guadalajara. The Company's pipeline assets also include 100% interest of the assets held by the former joint venture with Pemex TRI, Gasoductos de Chihuahua, in which the Company held 50% interest before September 27, 2016. The GdC Acquisition excluded Gasoductos de Chihuahua's subsidiary Ductos y Energéticos del Norte, which participates in the ownership of the Los Ramones Norte pipeline through the TAG Pipelines Norte joint venture, and as a result the Company holds a 50% equity interest in Ductos y Energéticos del Norte (DEN). Through DEN's interest in 50% of the TAG Pipelines Norte joint venture, the Company holds a 25% indirect interest in the Los Ramones Norte pipeline. See the section "Recent Developments – Gasoductos de Chihuahua Acquisition". Gas Segment includes the Company's LNG business, which it owns a 320,000 m^3 (73.28 MMTh) storage and regasification terminal, as well as a natural gas marketing company that buys LNG for storage and regasification in the LNG Terminal and sells the resulting natural gas to third parties and subsidiaries. In addition, the Company owns the ECOGAS distribution system, which is the third most important business in the Gas segment. This system currently serves more than 119,000 industrial, commercial and residential customers in three geographic distribution areas in the north of Mexico. Both in the pipeline business and in the LNG business, the Company has entered into long-term contracts, mainly on a firm basis, with companies of great solvency and recognition in the industry, including Shell, Gazprom, CFE, InterGen, TransCanada and Pemex TRI.

Within the power segment, in December 2016, the Company acquired 100% of the equity interests of Ventika wind power generation facilities. Located in the State of Nuevo Leon, approximately 34 miles from the U.S. border, powered by a total of 84 turbines and providing an aggregate of up to 252 MW of generating capacity, Ventika is one of the largest wind farms in Mexico and Latin America. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. In the power segment, as an asset held for sale, the Company own and operate Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility. Effective January 1, 2012, the Company sells electricity to consumers in California's Independent System Operator power grid, and Sempra Generation acts as marketing and scheduling agent for these sales.

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

Through the Company's joint venture with InterGen, the Company is 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 the Company's operations are conducted in Mexico. As a result, the Company's business, financial condition and results of operations depend on and may be affected by the general condition of the Mexican economy, over which the Company has no control.

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 2016, 2015 and 2014, Mexico's GDP grew by 2.30%, 2.63% and 2.27%, respectively.

The Company expects 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 the Company operates, 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 the Company generates under firm services agreements is generally stable, natural gas prices impact the Company's LNG marketing operations as well as the natural gas distribution business to the extent they affect demand for natural gas. See "Factors Affecting the Company's results of Operations – Revenue" and "Risk Factors."

GdC Acquisition

On September 27, 2016, the Company acquired the remaining 50% equity interest in Gasoductos de Chihuahua from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388.0 million. GdC. This acquisition was approved by the Extraordinary Shareholders' Assembly of September 14, 2015. As a result of the GdC Acquisition, the Company increased its indirect equity interest in Gasoductos de Chihuahua from 50% to 100%. The GdC Acquisition excluded Gasoductos de Chihuahua's subsidiary Ductos y Energéticos del Norte, which participates in the ownership of the Los Ramones Norte pipeline through the TAG Pipelines Norte joint venture, and as a result the Company holds a 50% equity interest in Ductos y Energéticos del Norte (DEN). Through DEN's interest in 50% of the TAG Pipelines Norte joint venture, the Company holds a 25% indirect interest in the Los Ramones Norte pipeline. See the section "Recent Developments". The Company entered into a bridge loan of USD$1.15 billion with Sempra Global and / or other unconsolidated affiliates, to finance the acquisition of GdC. The Company used the net proceeds from the gloal equity follow-on to prepay the bridge loan and for other general corporate purposes.

Ventika Acquisition

In December 14 2016, the Company acquired 100% of equity interests of Ventika. Located in the State of Nuevo León, approximately 56 kms from the United States of America border, Ventika is one of the biggest wind farms in Mexico and Latin America, powered by 84 turbines and with up to 252 MW of installed capacity. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. Cash price was USD$434.7 millones including USD$125.0 million of shareholders' debt, plus existing bank indebtedness. Ventika started commercial operations on April 2016. Substantially, all Ventika's generation capacity is contracted to private companies through 20-year energy supply agreement, U.S. Dollar denominated.

Factors Affecting the Company's results of Operations

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

Revenues

Revenue generated by each of the Company's businesses is affected by the following factors:

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

- The Company depends on a limited number of customers with whom the Company has entered into long-term agreements. These agreements are, in general, subject to:

    - Early termination provisions for the failure of a party to perform its obligations under the agreement or in the event of insolvency of any of the parties;

    - Suspension or termination provisions for *force majeure* events beyond the control of the parties; and

    - Substantial limitations of remedies for other failures to perform by any of the parties, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach of the agreements.

    - If the Company is unable to collect payments from customers under these agreements for any of these reasons or otherwise, the Company's revenue could decrease.

- The Company's LNG terminal's primary revenue stream is generated through long-term firm storage services agreements with its third-party customers, Shell and Gazprom, as well as with the subsidiary IEnova Marketing, which purchases LNG for storage and regasification at the Company's LNG terminal. Each of the customers must pay for its full contracted LNG storage capacity, natural gas send-out capacity and nitrogen facility capacity regardless of whether it actually delivers LNG to the terminal. IEnova Marketing generates revenues by purchasing LNG for storage and regasification in the Company's LNG terminal, and selling natural gas that is consumed by the Mexican Federal Electricity Commission at its Presidente Juárez power plant, by the Company's Termoeléctrica de Mexicali power plant and by other consumers pursuant to natural gas supply contracts covering 100% of its LNG terminal natural gas send-out capacity. IEnova Marketing also generates revenues from payments it receives to the extent its LNG supplier, the Company's U.S. affiliate Sempra Natural Gas, does not deliver LNG to IEnova Marketing pursuant to a long-term LNG supply contract. Relatively high prices for LNG in Asian markets, together with low natural gas prices in Mexico and the United States, have reduced the number of expected shipments of LNG cargoes to IEnova Marketing by Sempra Natural Gas. Accordingly, the Company also depends on revenue derived from these payments. Under a long-term supply contract with Sempra Natural Gas, the payments made by Sempra Natural Gas to IEnova Marketing have been sufficient to compensate IEnova Marketing for the storage and transportation costs incurred by IEnova

Marketing resulting from Sempra Natural Gas' failure to deliver required LNG cargoes. See "Related Party Transactions and Conflicts of Interest" and Note 28.5 to the Company's audited financial statements included elsewhere in this report.

- The price of natural gas is subject to market conditions beyond the Company's 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 the natural gas business, is derived from natural gas distribution fees and other related services. Accordingly, total revenue for the natural gas distribution business is impacted by market swings in natural gas prices and the Company's customers' preference for natural gas relative to other energy sources, such as LPG, 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.

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

- Customer demand in gas and power segments is also impacted by seasonality in the United States market and, with respect to natural gas distribution, general economic conditions in Mexico. See "– Mexican Economic Environment." Lower customer demand due to seasonality or unfavorable economic conditions could lower the Company's revenue and profits.

- The markets and pipelines to which the Company delivers natural gas and LPG typically establish minimum quality specifications for the delivered natural gas and LPG. These specifications can vary by pipeline or markets. If the quality of natural gas or LPG that the Company delivers fails to meet the applicable product quality specifications, the pipeline or market may refuse to accept all or a part of the delivery or may invoice the Company for the costs to handle the non-conforming products. In those circumstances, the Company may be required to find alternative markets for the delivery or stop accepting non-conforming product into the Company's pipelines, which could reduce the Company's through-put volumes or revenue.

- The Company may use forward contracts, physical purchase and sales contracts, futures, financial swaps and options in the ordinary course of the Company's business. The Company uses these instruments for hedging purposes. However, they are not reflected as hedges in the Company's financial statements because they do not qualify for hedge accounting due to certain technical requirements. The Company does not hedge the entire exposure to market price volatility of its assets or contract positions, and the hedging will vary over time. Unanticipated changes in market prices for energy-related commodities can result from multiple factors, including weather conditions, seasonality, changes in supply and demand, transmission or transportation constraints or inefficiencies, availability of competitively priced alternative energy sources and commodity production levels. If the Company does not hedge its exposure to market price volatility or the Company's contract positions correctly, the Company could incur losses.

- ECOGAS natural gas distribution business benefited from a 12-year period of exclusivity with respect to each of its three distribution zones. The last of these exclusivity periods expired in 2011. Accordingly, the Company could face competition from other distributors of natural gas in all of the distribution zones.

Cost of Natural Gas

Cost of natural gas primarily consists of the cost of natural gas, costs of services, minor materials used in the power generation process, labor costs and transportation costs. The principal factors that affect these costs include the following:

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

- The Company's LNG business is also impacted by worldwide LNG market prices. High LNG prices in markets outside the market in which the Company's LNG terminal operates have resulted and could continue to result in lower than expected deliveries of LNG cargoes to the Company's LNG terminal, which could increase the Company's costs if it does not receive expected LNG cargo deliveries from third parties under existing supply agreements and are instead required to obtain LNG in the open market at prevailing prices. Any inability to obtain expected LNG cargoes could also impact the Company's ability to maintain the minimum level of LNG required to keep the Company's LNG terminal in operation. LNG market prices also affect the Company's LNG marketing operations, through which the Company must purchase natural gas in the international market to meet its contractual obligations to deliver natural gas to the Company's customers, which could have an effect on its profit. See "–Revenue."

- Currently, 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 the Company distributes to its customers. If any of these key suppliers fails to perform and the Company is unable to obtain supplies of natural gas from alternate sources, the Company could lose customers and sales volume and, in some cases, it could be exposed to commodity price risk and volatility.

Effects of Currency Exchange Rates on Income Tax Expense

Exchange rate fluctuations and Mexican inflation can result in significant fluctuations in the Company's income tax expense. The Company has U.S. Dollar-denominated receivables and payables that are subject to Mexican currency exchange rate movements for Mexican income tax purposes. The Company also has deferred income tax assets and liabilities that are denominated in Mexican pesos, which are translated to U.S. Dollars for financial reporting purposes. In addition, the Company adjusts its monetary assets and liabilities for Mexican inflation for purposes of determining the Mexican income tax expense. See Note 24.7 to the Company's audited financial statements, included elsewhere in this report.

Under IFRS, the Company is required to remeasure property, plant and equipment at each reporting period using the period-end Mexican peso exchange rate and change in inflation rate for the Company's U.S. Dollar functional currency subsidiaries. The impact from this period-end conversion for property, plant and equipment can result in significant fluctuations in the Company's income tax expense and deferred income tax balances. See Note 25.1 to the Company's audited financial statements, included elsewhere in this report.

Mexican Income Tax Reforms

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 the Company's 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 USD$15 million increase in the Company's deferred income tax expense for 2013.

- *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 the Company was required to make an advanced payment of approximately USD$81 million, which was reported under short-term income tax liabilities in the Company's consolidated statement of financial position. In addition, because the Company may no longer offset its income tax assets and liabilities, the income tax receivables and liabilities of its 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%.

On September 8, 2015, Mexican President Enrique Peña Nieto presented to the Congress of the Union a series of proposals to reform several fiscal laws of Mexico. On November 18, 2015, this reform was published in the Official Gazette of the Federation, which came into force on January 1, 2016. The main effects of the tax reform for 2016 are as follows:

- 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.

- 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.

- 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.

Market Risks Associated With the Merchant Power Plant

The results related to Termoeléctrica de Mexicali power plant are affected by market conditions, as it is currently operating on a merchant basis. Termoeléctrica de Mexicali currently sells its power based on market conditions at the time of sale, so the Company cannot predict with certainty:

- The amount or timing of revenue it may receive from power sales;

- The differential between the cost of operations and power sales revenue;
- The effect of competition from other suppliers of power;
- Regulatory actions or changes that may affect market behavior;
- The demand for power in markets served by Termoeléctrica de Mexicali relative to available supply; or
- The availability of transmission to accommodate the sale of power.

Several of the wholesale markets supplied by merchant power plants have experienced significant pricing declines due to excess supply. Termoeléctrica de Mexicali's results could be adversely affected if it is unable to sufficiently sell its output at prices that would allow the Company to write off any of the capital already invested in the project as a result of significant changes to market or regulatory conditions, among other factors. The Company manages risks at Termoeléctrica de Mexicali by optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions, as well as avoiding short positions. However, the Company cannot provide assurance regarding the implementation of these risk management measures or how successful such implementation may be, and entering into long-term contracts in oversupplied markets could be difficult.

i) **Results of Operations for the Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth the Company's profit for the years ended December 31, 2016, 2015 and 2014, and the change from the prior period. Segment profit is presented after the elimination of intercompany transactions.

	Year ended December 31,			Change			
(in thousands of U.S. Dollars, except the percentages)	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
Revenues	717,894	613,041	738,830	104,853	17.1%	(125,789)	(17.0)%
Cost of revenues	(237,789)	(257,226)	(409,635)	19,437	(7.6)%	152,409	(37.2)%
Operating, administrative and other expenses	(104,754)	(81,857)	(78,658)	(22,897)	28.0%	(3,199)	4.1%
Depreciation and amortization	(64,384)	(52,470)	(46,728)	(11,914)	22.7%	(5,742)	12.3%
Interest income	6,269	6,701	3,187	(432)	(6.4)%	3,514	110.3%
Finance (costs) income	(20,836)	(9,859)	1,379	(10,977)	111.3%	(11,238)	(814.9)%
Other gains and (losses), net	2,168	(11,426)	4,059	13,594	(119.0)%	(15,485)	(381.5)%
Remeasurement of equity method investment	673,071	-	-	673,071			
Profit before income taxes and share of profits of joint ventures	971,639	206,904	212,434	764,735	369.6%	(5,530)	(2.6)%
Income tax expense	(147,158)	(94,237)	(102,856)	(52,921)	56.2%	8,619	(8.4)%
Share of profits of joint ventures, net of income taxes	42,841	42,319	23,346	522	1.2%	18,973	81.3%
Profit for the period from continuing operations	867,322	154,986	132,924	712,336	459.6%	22,062	16.6%
(Loss) gain for the period from discontinued operations, net of income tax	(112,332)	(14,797)	4,010	(97,535)	659.2%	(18,807)	(469.0)%
Profit for the year	754,990	140,189	136,934	614,801	438.6%	3,255	2.4%

Profit for the year

The following table sets forth the Company's profit by reportable segment for the years ended December 31, 2016, 2015 and 2014, 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			
	2016	**2015**	**2014**	**2016 vs. 2015**		**2015 vs. 2014**	
Profit for the year							
Gas segment.................	919,219	185,313	167,331	733,906	396.0%	17,982	10.7%
Power segment.............	(111,749)	(10,626)	22,400	(101,123)	951.7%	(33,026)	(147.4)%
Corporate	(52,480)	(34,498)	(52,797)	(17,982)	52.1%	18,299	(34.7)%
Total profit for the year	754,990	140,189	136,934	614,801	438.6%	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 2016, gas segment profit increased by USD$733.9 million, or 396%, compared to 2015, primarily due to a one-time noncash of USD$673.1 million of remeasurement of equity method investment of the Company's previously held 50% share on Gasoductos de Chihuahua.

In 2015, gas segment profit increased by USD$18.0 million, or 10.7%, 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.

Power Segment

In 2016, power segment loss increased by USD$101.1 million compared to 2015, primarily due to the noncash adjustment of carrying value of Termoeléctrica de Mexicali power plant by USD$136.9 million.

In 2015, power segment profit decreased by USD$33.0 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 the Company's Energía Sierra Juárez wind power generation project.

Corporate

In 2016, corporate loss increased by USD$18.0 million compared to 2015, primarily due to higher income tax expense as a result of higher proft before tax and the effect of exchange rate and inflation on monetary assets and liabilities at period end.

In 2015, corporate loss decreased by USD$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 the Company's US Dollar functional currency, which are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate.

Revenues

The following table sets forth the Company's revenues by reportable segment for the years ended December 31, 2016, 2015 and 2014, 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**			
	2016	**2015**	**2014**	**2016 vs. 2015**		**2015 vs. 2014**	
Revenues							
Gas segment..................	712,327	611,275	736,688	101,052	16.5%	(125,413)	(17.0)%
Power segment..............	2,930	-	-	2,930	n.s.	-	n.s.
Corporate......................	2,637	1,766	2,142	871	49.3%	(376)	(17.6)%
Total revenues..................	717,894	613,041	738,830	104,853	17.1%	(125,789)	(17.0)%

<u>*Gas Segment*</u>

In 2016, gas segment revenues increased by USD$101.1 million, equivalent to 16.5% compared to 2015, primarily due to USD$79.4 million related to the acquisition of the remaining 50% of Gasoductos de Chihuahua and USD$32.1 million of income related to Sonora pipeline Guaymas – El Oro segment, partially offset by USD$7.9 million of lower weighted average price of natural gas.

In 2015, gas segment revenues decreased by USD$125.4 million, equivalent to 17.0% compared to 2014, primarily due to lower weighted average price of natural gas of USD$144.0 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.

<u>*Power Segment*</u>

In 2016, power segment revenues of USD$2.9 million relate to 17 days of operations of Ventika wind power generation facilities.

In February 2016, the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2016, 2015 and 2014 are included in the Company's consolidated statements of profit under "Discontinued operations."

<u>*Corporate*</u>

In 2016, corporate revenues increased USD$0.9 million, equivalent to 49%, compared to 2015, mainly due to project development expenses billing.

Corporate revenues remained stable in 2015 compared to 2014.

Cost of revenues

The following table sets forth the Company's cost of revenues by reportable segment for the years ended December 31, 2016, 2015 and 2014, 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			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
Cost of revenues							
Gas segment......................	237,621	257,226	409,635	(19,605)	(7.6)%	(152,409)	(37.2)%
Power segment..................	168			168	n.s.		n.s.
Total cost of revenues...............	237,789	257,226	409,635	(19,437)	(7.6)%	(152,409)	(37.2)%

Gas Segment

In 2016, gas segment cost of revenues decreased by USD$19.6 million, equivalent to 7.6%, compared to 2015, primarily due to lower weighted average cost of natural gas.

In 2015, gas segment cost of revenues decreased by USD$152.4 million, equivalent to 37.2%, compared to 2014, primarily due to lower weighted average cost of natural gas.

Power Segment

In 2016, power segment cost of revenues of USD$0.2 million relate to 17 days of operations of Ventika wind power generation facilities.

In February 2016, the Company's board of directors approved a plan involving the sale of Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the years ended December 31, 2016, 2015 and 2014 are included in the consolidated statements of profit under "Discontinued operations."

Operating, administrative and other expenses

In 2016, operating, administrative and other expenses of USD$104.8 million compared to USD$81.9 million in 2015, the increase was mainly due to the acquisition of the remaining 50% of Gasoductos de Chihuahua.

In 2015, operating, administrative and other expenses of USD$81.9 million compared to USD$78.7 million in 2014, the increase was primarily due to the expenses related to the development of new projects.

Depreciation and amortization

In 2016, depreciation and amortization expenses of USD$64.4 million, compared to USD$52.5 million. The variance of USD$11.9 million was mainly due to the acquisition of the remaining 50% of Gasoductos de Chihuahua and Ventika acquisition.

In 2015, depreciation and amortization expenses of USD$52.5 million, compared to USD$46.7 million in 2014. The variance of USD$5.8 million was mainly due to the start of operations of the Sásabe–Puerto Libertad segment of the Sonora pipeline.

Finance (costs) income

In 2016, net financing costs was USD$14.6 million compared to USD$3.2 million in 2015. The variance of USD$11.4 million, is mainly due to increased interest expense related to the acquisition of the remaining 50% of Gasoductos de Chihuahua and the acquisition of Ventika.

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

Other (losses) gains

In 2016, other gains, net, were USD$2.2 million, compared with other losses, net, of USD$11.4 million in 2015. The variation of USD$13.6 million is mainly due to foreign exchange impacts and mark-to-market losses on an interest rate swap in 2015. This derivative instrument was terminated in September 2015.

In 2015, other losses were USD$11.4 million compared to other gains of USD$4.1 million in 2014. The variance of USD$15.5 million is mainly due to USD$19.1 million gain in 2014 on the sale of the Company's 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.

Income taxes

In 2016, income tax expense was USD$147.2 million compared with USD$94.2 million in 2015. The variance of USD$53.0 million is primarily due to higher earnings before taxes and the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant, and equipment at the Company's U.S. dollar functional currency, which the Company is required to remeasure in each reporting period based on changes in the Mexican peso exchange rate, and the effect of inflation on monetary assets and liabilities, partially offset by currency exchange rate movements at period end on monetary assets and liabilities.

In 2015, income tax expense was USD$94.2 million compared to USD$102.9 million in 2014. The variance of USD$8.7 million is primarily due to 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 the Company's U.S. dollar functional currency, which the Company is required to remeasure in each reporting period based on changes in the Mexican peso exchange rate.

Share of profits of joint ventures, net of income taxes

In 2016 the Company's share of profits of joint ventures, net of income tax, which the Company accounts for using the equity method, was USD$42.8 million in comparison to USD$42.3 million in 2015. The increase by USD$0.5 million is due to the start of operations of the Los Ramones Norte pipeline, partially offset by the acquisition of the remaining 50% of Gasoductos de Chihuahua.

In 2015 the Company's share of profits of joint ventures, net of income tax, which the Company accounts for using the equity method, increased by USD$18.9 million compared to 2014, to USD$42.3 million. This increase was due primarily to an increase in profits at the Company's 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.

Adjusted EBITDA

The following table sets forth the Company's Adjusted EBITDA by reportable segment for the years ended December 31, 2016, 2015 and 2014, 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			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
Adjusted EBITDA							
Gas segment	485,451	373,540	306,221	111,911	30.0%	67,319	22.0%
Power segment	19,269	18,659	30,346	610	3.3%	(11,687)	(38.5)%
Corporate	(699)	(385)	323	(314)	81.6%	(708)	(219.2)%
Total Adjusted EBITDA	504,021	391,814	336,890	112,207	28.6%	54,924	16.3%

For the Company's definition of EBITDA and Adjusted EBITDA, an explanation of why the Company presents it and a discussion of its limitations, see "Selected Financial Information – Other financial and operating data."

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

Overview

Historically, the Company has generated, and the Company expects to continue to generate, positive cash flow from operations. The Company's principal capital needs are for working capital, capital expenditures related to maintenance, expansions and acquisitions, and debt service. The Company's ability to fund its capital needs depends on its ongoing ability to generate cash from operations, the terms of its financing arrangements, and its access to capital markets. The Company believes that its future cash from operations, together with its access to debt financing and the equity capital markets, will provide adequate resources to fund the Company's operating activities, capital expenditures, acquisitions and new business development activities.

A substantial portion of the capacity of the assets across the Company's business segments is under long-term agreements with customers, which provides the Company with a generally steady and predictable cash flow stream. The Company's counterparties with respect to the substantial majority of these agreements are stable, creditworthy, private or state-owned entities.

Cash flows from operating activities consist primarily of inflows from revenue, and outflows for costs of revenues and increases in working capital needed to grow the Company's business. Cash flows used in investing activities represent investments in property, plant and equipment required for the Company's growth, in expansion and maintenance, and in acquisitions. Cash flows from financing activities are primarily related to changes in loans from unconsolidated affiliates to grow the Company's business, repayments of indebtedness with cash from operations, refinancing transactions and payments of dividends.

The Company expects that its cash flows from operations, as well as its capacity for future borrowings, will be sufficient to finance the liquidity requirements for the foreseeable future. The Company is also subject to certain capital requirements imposed by governmental agencies on the Company's regulated pipelines and natural gas distribution businesses.

Liquidity

The Company is a holding company. As a result, the Company's ability to meet its obligations depends primarily on the earnings and cash flows of its subsidiaries and investments in joint ventures, and the ability of those subsidiaries or joint ventures to pay dividends or distribute other amounts to the Company.

Capital Resources; Use of Proceeds

	Year ended December 31,		
(in thousands of U.S. Dollars)	**2016**	**2015**	**2014**
Net cash provided by operating activities	240,732	168,179	163,217
Net cash used in investing activities	(1,848,876)	(248,796)	(267,964)
Net cash generated by financing activities	1,605,461	41,892	83,939
Cash and cash equivalents at the end of the year	24,918	40,377	83,637

Operating Activities

In 2016, net cash provided by operating activities was USD$240.7 million, compared to USD$168.2 million in 2015. This increase was due primarily to a change in the Company's working capital, partially offset by paid taxes.

In 2015, net cash provided by operating activities was USD$168.2 million, compared to USD$163.2 million in 2014. This increase was due primarily to a change in the Company's working capital, partially offset by paid taxes.

Investing Activities

The Company maintains financial resources sufficient to meet its financial commitments related to capital expenditures and other investing activities and those of its subsidiaries.

In 2016, net cash used in investment activities was USD$1,848.9 million, due to the acquisition of Gasoductos de Chihuahua by USD$1,077.6 million, net of cash available at the date of acquisition; and Ventika acquisition using USD$434.7 million, net of cash available at closing date, including shareholders' debt purchase by USD$125.0 million; capital expenditures of USD$315.8 million for the Ojinaga – El Encino pipeline, Sonora pipeline and San Isidro – Samalayuca pipeline projects, and the investment of USD$100.5 million in IMG; partially offset by restricted cash of USD$46.8 million, related to bank debt of Ventika and Gasoductos de Chihuahua; decrease in short-term investments of USD$20.0 million, and repayment of loans from unconsolidated affiliates of USD$8.3 million.

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

Financing Activities

In 2016, net cash provided by financing activities was USD$1,605.5 million, mainly due to USD$1,567.7 million proceeds from the common stock follow-on offering, net of expenses, USD$1,240.0 million in loans from unconsolidated affiliates and USD$805.0 million from borrowings against credit facilities, partially offset by USD$1,369.6 million repayment of unconsolidated affiliate loans, USD$459.5 million repayment of bank loans, a dividend payment of USD$140.0 million, and interest paid of USD$35.8 million.

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

Summary of Relevant Financial Position Data

(in thousands of U.S. Dollars)	As of December 31,		
	2016	2015	2014
Finance lease receivable, current	7,155	-	-
Finance lease receivable, non-current	950,311	14,510	14,621
Property, plant and equipment	3,614,085	2,595,840	2,377,739
Intangible assets	154,144	-	-
Goodwill	1,651,780	25,654	25,654
Total assets	**7,126,948**	**3,507,082**	**3,380,218**
Current liabilities	971,674	543,341	367,550
Non-current liabilities	1,804,963	783,877	763,380
Total liabilities	**2,776,637**	**1,327,218**	**1,130,930**
Total liabilities and equity	**4,350,311**	**2,179,864**	**2,249,288**

The main changes in the consolidated statements of financial position relate primarily to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua, the acquisition of the 100% equity interest in Ventika wind power generacion facilities and the common stock follow-on offering.

Finance lease receivables increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua.

Property, plant and equipment increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generacion facilities.

Intangible assets relate to the renewable transmission and consumption rights of Ventika, associated with projects approved under the preexisting self-supply program of renewable energy.

Goodwill increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generacion facilities.

Long-term debt and its corresponding current portion increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generacion facilities.

Financial Ratios

	Años terminados el 31 de diciembre de		
	2016	2015	2014
Current assets/current liabilities	0.5 times	0.4 times	0.9 times
Total liabilities/total assets	39%	38%	33%
Total liabilities/stockholder's equity	64%	61%	50%
Days of sales in accounts receivable	33 days*	32 days	29 days

* Proforma

Debt

Historical

(in thousands of U.S. Dollars)	As of December 31, 2016	2015	2014
Short-term debt	493,571	88,507	195,089
Short-term debt with unconsolidated affiliates	248,580	339,600	—
Long term debt with unconsolidated affiliates	3,080	38,460	38,460
Long-term debt related to the Notes	408,000	408,000	408,000
Long-term bank debt	788,159	—	—

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013), for sale in connection with a public offering in Mexico: 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. The Company used a portion of the proceeds from the sale of both series of Notes, or approximately USD$408 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and to finance the purchase of property, plant and equipment.

On June 19, 2014, the Company entered into a three-year, USD$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. The Company used the proceeds from this loan to finance its working capital requirements and for general corporate purposes. As of December 31, 2014, the Company had made disbursements totaling USD$145.0 million. On August 26, 2015, the Company prepaid in full the outstanding balance of this loan.

On August 25, 2014, the Company entered into a three-year, USD$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.The Company used the proceeds from this loan to finance its working capital requirements and for general corporate purposes. As of December 31, 2014, the outstanding balance under this loan was USD$49.0 million. On August 24, 2015, the Company prepaid in full the outstanding balance of this loan.

On August 21, 2015 the Company entered into a five-year, USD$400 million revolving loan agreement with Sumitomo Mitsui Banking Corporation, Santander, The Bank of Tokio-Mitsubishi, and Bank of Nova Scotia. The Company used the proceeds from this loan to finance its 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, the Company made a USD$310.0 million disbursement under this facility, and on the same date the Company repaid USD$219 million. On December 22, 2015, the Company entered into an amendment agreement to the revolving loan agreement in order to increase the amount available under this facility to USD$600 million. As of December 31, 2015, the Company had USD$509 million available under this facility. In November 2016, a modification was made to the Company's revolving credit agreement to increase the amount available from USD$600 million to USD$1,170 million. The destination of the resources of this line of credit is for working capital, investments and other corporate purposes in general.

On March 2, 2015, the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with the 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. The Company used the proceeds from these loans to finance its 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, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.*

On December 22, 2015, the Company entered into a 12-month, USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan accrues interest at equal to LIBOR plus 0.17%, payable on a quarterly basis. On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD$800.0 million with Sempra Global, in order to finance the acquisition of GdC. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, the Company repaid this Bridge Loan.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount USD$350.0 million with Semco Holdco. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, the Company repaid this Bridge Loan.

On December 27, 2016, IEnova entered into two related parties revolving credit facilities for USD$20.0 million with Peruvian Opportunity Company S. A. C. and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated, have a twelve-month term, with an option to be extended up to four years in order to finance working capital needs and general corporate purposes.

As of December 31, 2016, all of the Company's long-term debt to unconsolidated affiliates was owed to out indirect controlling shareholder or its subsidiaries. The Company made interest payments of USD$5.8 million in 2016, USD$1.4 million in 2015 and USD$1.6 million in 2014, and principal payments of USD$1,370 million in 2016, USD$0.0 million in 2015 and USD$0.6 million in 2014 in connection with this debt. The Company's affiliate loans as of December 31, 2016 had maturities ranging from March 2017 through December 2027 and accrued interest at average annual rates ranging from 2.7% to 3.3%. See Note 6.1 to the Company's audited financial statements, included elsewhere in this report.

Capital Expenditures

The Company expects 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 the Company's revenue and profitability. The Company intends to achieve this goal by pursuing a disciplined, targeted growth strategy, including:

- Investing in long-term essential energy infrastructure assets in Mexico;
- Continuing to expand the Company's network of energy assets in Mexico;
- Continuing to focus on assets that produce stable cash flows; and
- Maximizing the efficiencies and profitability of the Company's current energy assets.

For the years ended, December 31, 2016, 2015 and 2014 the Company made capital expenditures of USD$315.8 million, USD$300.1 million and USD$325.5 million, respectively. These capital expenditures included mainly expenditures related to acquisitions of property, plant and equipment for the development of the Ojinaga – El Encino pipeline, Sonora pipeline and San Isidro – Samalayuca pipeline.

The Company estimates that the Company's capital expenditures for 2017, excluding expenditures made in connection with any business acquisitions, will be approximately USD$820.0 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 the Company's expected capital expenditures by business segment in 2017, 2018 and 2019 (excluding capital expenditures in connection with the Company's joint venture with TransCanada):

(in millions of U.S. Dollars)	Gas Segment	Power Segment
	2017	
Property, plant and equipment	$ 815	$ 5
	2018	
Property, plant and equipment	$ 218	$ 134
	2019	
Property, plant and equipment	$ 16	$ 126

Contractual Arrangements

Historical

The following table contains a summary of the Company's contractual obligations as of December 31, 2016, after giving effect to the undiscounted cash flows associated with the Company's financial liabilities based on the earliest date on which the Company will be required to pay and including the cash flows associated with payments of both principal and interest:

(in thousands of U.S. Dollars)	Less tan one year	1–2 years	3-5 years	More than 5 years	Total
Due to unconsolidated affiliates	248,580		3,080		**251,660**
Notes	14,567	93,779	24,111	177,769	**310,226**
Bank loans	534,903	120,537	80,358	1,007,591	**1,743,389**
Derivative financial instruments	(3,848)	(54,361)	(13,089)	(146,824)	**(218,122)**
Total	**755,742**	**159,955**	**132,920**	**1,038,536**	**2,087,153**

In the ordinary course of business, the Company also enters into long-term supply arrangements with affiliates that are not reflected in the table above. In addition, in connection with the Company's transactions with derivative financial instruments it is subject to the obligations described below under "– Quantitative and Qualitative Disclosures About Market Risk – Derivative Financial Instruments."

Off-Balance Sheet Arrangements

As of December 31, 2016, the Company did not have any off-balance sheet arrangements.

iii) **Internal Controls**

The Company's management is responsible for maintaining a system of internal control over financial reporting. This system gives the Company's shareholders a reasonable assurance that its transactions are executed and maintained in accordance with the guidelines set forth by the Company's management and its financial records are reliable as a basis for preparing its financial statements.

The system of internal control over financial reporting is supported by ongoing audits, the results of which are reported to management throughout the year. In addition, the Company maintains reliable databases and have modern and efficient systems designed to generate key financial information in real time. These systems also facilitate the efficient preparation of the Company's financial reports.

To fulfill its responsibilities regarding the integrity of financial reporting, the Company's management maintains and relies on its system of internal control over financial reporting. This system is based on an organizational structure that delegates responsibility and ensures selection of competent personnel. The system also includes policies that are communicated to appropriate employees.

The Company's system of internal control over financial reporting has the following primary goals:

- Issue reliable, timely and meaningful financial information;

- Delegate authority and assign responsibilities for achieving the system's goals and objectives;

- Establish proper business practices within the Company's organization; and

- Provide administrative control methods to help oversee and monitor compliance with the Company's policies and procedures.

The Company has manuals that establish its policies and procedures regarding the implementation and promotion of the Company's business, the control and monitoring of transactions involving the acquisition, promotion, distribution or sale of the Company's subsidiaries, and the controls in the areas of human resources, finance, accounting, legal, tax and data processing, among others.

Quantitative and Qualitative Information Related to Market Risk

Derivative Financial Instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in the Company's audited financial statements, Note 24, included elsewhere in this report.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

Embedded Derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Own Use Exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

Financial Risk Management Objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

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 the Company entered into in connection with the Notes (or Cebures), see "Material Financing Arrangements".

Value at Risk (VaR) Analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95 percent confidence interval in its VaR calculations. The one-day 95 percent VaR number reflects the 95 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day), by risk type (in thousands of U.S. Dollars)	**As of December 31,** 2016	2015	2014
Interest rate swaps	4,025	3,761	4,606
Total VaR exposure	3,824	3,573	4,376

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95% confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7 to the Company's audited financial statements, included elsewhere in this report.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Refer to Note 24.5 to the Company's audited financial statements, included elsewhere in this report.

Foreign Currency Risk Management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it 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, 2016	2015	2014
Monetary assets			
U.S. Dollar-functional currency subsidiaries	171,463	159,824	174,435
Mexican peso-functional currency subsidiaries	19,900	30,110	26,011
Monetary liabilities			
U.S. Dollar-functional currency subsidiaries	779,000	585,062	593,099
Mexican peso-functional currency subsidiaries	34,102	31,713	37,531

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, IT and Flat Tax (IETU by initials in Spanish) receivables or payables, prepaid expenses, guarantee deposits, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, 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.

	As of December 31, 2016	2015	2014	Feb 21, 2017
One U.S. Dollar	$20.6640	$17.2065	$14.7180	$20.4526

Foreign Exchange Sensitivity Analysis

The following table details the Company's profit and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

(in thousands of U.S. Dollars)	U.S. Dollar-functional currency susidiares			Mexican peso-functional currency susidiares		
	2016	2015	2014	2016	2015	2014
Profit (loss)[(i)]	39,407	27,061	17,623	898	94	
Other comprehensive income				(9,486)	(5,692)	(4,731)

[(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, 2016, 2015 and 2014 mainly due to income tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2016, 2015 and 2014 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 USD$450.0 million from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company’s external borrowing needs. Accordingly, a cash flow hedge gain of USD$30.0 million was reclassified from OCI in members’ equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item. As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of USD$151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and payed a fixed interest rate of 5.0 percent.

The change in the fair value and the settlement of the interest rate swap were recognized in the Company’s audited financial statements, included elsewhere in this report.

Interest rate swap contracts entered into by the joint ventures of the Company

The joint venture with InterGen entered into swap contracts to effectively hedge financing interest rate risk. See note 11.2 (b) to the Company’s audited financial statements, included elsewhere in this report.

The fair value of derivative financial instruments is based on the market values in force at the date of the consolidated financial statements, which impact the investment in the joint business against current profits.

The Company's management considers that the result of the sensitivity analysis of these derivatives is insignificant.

Credit Risk Management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties' contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In the natural gas distribution business, ECOGAS, depending on the type of service requested by the customer, different criteria are applied as follows:

- Minor customers (residential customers for household consumption):
- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, which are confirmed, and
- Registration with tax agency for commercial customers with minor consumption

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100% of the balances of major customers by the credit and collection department, to 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 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 with resources obtained from the Notes and the Global Offering (Note 1.2.2 and 1.2.3, respectively, to the Company’s audited financial statements, included elsewhere in this report). The Company´s current liabilities exceed its current assets mainly due to loan from unconsolidated affiliates and short-term debt. As explained in Note 21 to the Company’s audited financial statements, included elsewhere in this report, the Company has USD$724.0 million of unused lines of credits with banks and MXP$7,600 million available approximately under the current authorized CEBURES program at the Mexican Stock Exchange.

e) Critical Accounting Estimates, Provisions and Reserves

Critical Accounting Judgments and Key Sources for Estimating Uncertainties

In the application of the accounting policies of the Company, management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Financial Statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the change affects both the current period and to subsequent periods.

Critical Judgments Used in Applying the Company's Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Finance Lease for The Company's Compression Station

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 8 to the Company's audited financial statements, included elsewhere in this report.

Regulatory Accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2016, 2015 and 2014, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, Regulatory deferral accounts on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the consolidated statements of financial position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

Own Use Exemption

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement," contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's "own use." The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts 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, the Company's management takes into account past practices with respect to net settlement under similar contracts, past practices with respect to taking delivery and selling the item within a short period, and whether the commodity is readily convertible into cash. The Company's management reviews each physical delivery arrangement for non-financial items to determine whether a non-financial item falls within the own use exemption from derivative accounting treatment.

Determining Whether an Arrangement Contains a Lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, 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 the Company's consolidated statements of financial position.

Estimated Useful Life of Property, Plant and Equipment

As described in Note 2.14 to the Company's audited financial statements included elsewhere in this report, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. See Note 14.1 to the Company's audited financial statements, included elsewhere in this report, for useful lives of property, plant and equipment.

Impairment of Long-Lived Assets (Goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

Asset Decommissioning Obligations

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the consolidated statements of financial position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

Valuation of Financial Instruments (Fair Value Measurement)

As described in Note 24 to the Company's audited financial statements, included elsewhere in this report, the Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Note 24 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Allowance for Doubtful Accounts

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5 to the Company's audited financial statements included elsewhere in this report. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

Recoverability of Deferred Tax Assets

As mentioned in Note 25 to the Company's audited financial statements included elsewhere in this report, the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

Measurement of Defined Benefit Obligations: Key Actuarial Assumptions

As described in Note 17 to the Company's audited financial statements included elsewhere in this report, the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

GdC acquisition, selected valuation methodology

GdC is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the fair value of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of fair value for IFRS purposes

Ventika acquisition, selected valuation methodology

Based on the nature of the power facility and generally accepted industry practice, the Company relied on the Income Approach, specifically the Discounted Cash Flow method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive the fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to the fair value estimate derived utilizing the Income Approach. It is noted that the Company's derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

MANAGEMENT

a) Independent Auditors

Independent auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., members of Deloitte Touche Tohmatsu Limited, whose offices are located in Mexico City. The Company's independent auditors were selected by the audit committee on the basis of their expertise and service and quality standards.

Galaz, Yamazaki, Ruiz Urquiza, S.C., are the Company's independent auditors since 1996. In the past three years they have not issued any qualified or negative opinion or abstained from issuing an opinion with respect to the Company's financial statements.

The Company's audited financial statements included in this report have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C. In 2016 the Company paid its independent auditors fees of approximately USD$1.1 million. In addition, the Company paid Galaz, Yamazaki, Ruíz Urquiza, S.C. fees of approximately USD$344,400 for other, non-auditing services that did not affect their independent status.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

b) Related Party Transactions and Conflicts of Interest

The following is a description of each transaction representing an amount in excess of USD$120,000 to which the Company has been a party since January 1, 2014, and in which one or more of its directors, senior officers or their respective affiliates or family members, or its indirect controlling shareholder or its affiliates has had or will have a material direct or indirect interest. The Company believes that the terms of each such transaction and the consideration that the Company paid or received in connection therewith were comparable with the terms the Company would have obtained and the consideration the Company would have paid or received in an arm's length transaction with a third party.

In the ordinary course of business the Company engages in a number of transactions with its indirect controlling shareholder and with companies that are owned or controlled, directly or indirectly, by its indirect controlling shareholder or its affiliates.

Intercompany Loan Agreements

Bridge Loan

In September 2016, the Company received credits in the aggregate amount of USD$1.1 billion from Sempra Global and / or other affiliates of the Company to finance the acquisition of GdC. These credits were paid in full, with the proceeds obtained from the equity follow-on.

Outstanding Loans from Related Parties as of December 31, 2016

The Company has revolving credit facilities in place with several affiliates of its indirect controlling shareholder as lenders. The Company may prepay all or part of the outstanding amount under each loan without penalty. The following table summarizes the key terms of these credit facilities as of December 31, 2016:

Lender	Loan Limit		Principal Outstanding		Interest Rate	Maturity Date
Sempra Oil Trading	USD$	100.0 millones	USD$	38.5 millones	3.29% (the Applicable Federal Rate for médium-term U.S. Treasury bonds, plus 200 basis points)	March 18, 2017
Inversiones Sempra Latin America	USD$	160.0 millones	USD$	160.0 millones	1.75%	December 15, 2017
Inversiones Sempra Limitada	USD$	30.0 millones	USD$	30.0 millones	1.75%	December 15, 2017
Peruvian Opportunity	USD$	20.0 millones	USD$	20.0 millones	1.75%	December 15, 2017
Ductos y Energéticos del Norte	USD$	3.0 millones	USD$	3.0 millones	5.65%	August 5, 2026

On December 27, 2016, IEnova entered into two related parties revolving credit facilities for USD$20.0 million with Peruvian Opportunity Company S. A. C. and USD$70.0 million with ISLA. The credit facilities are:

- U.S. Dollar denominated.
- Have a twelve-month term, with an option to be extended up to four years.
- Use of resources is to finance working capital needs and general corporate purposes.

On August 8, 2016, Ductos y Energeticos del Norte, granted a loan of USD$3.0 million to Gasoductos del Sureste, with a term of 10 years and fixed interest rate of 5.65%.

On March 2, 2015, the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra

Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. The company used the proceeds from these loans to finance its 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, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% per annum, paid quarterly. The credit facilities are:

- U.S. Dollar denominated.
- Have a nine-month term, with an option to be extended up to four years. As of December 31, 2016, debt was renegotiated to come due in December 2017.
- Use of resources is to finance working capital needs and general corporate purposes.

Since January 1, 2013, the Company has a loan of USD$38.5 million from Sempra Oil Trading Suisse. Outstanding balance as of December 31, 2016 is USD$38.5 million.

a. Loans from Related Parties, fully repaid as of December 31, 2016

On December 22, 2015, the Company entered into USD$219.6 million revolving loan agreement with Sempra Energy Holding XI B.V. This loan:

- U.S. Dollar denominated.
- Have a twelve-month term.
- Use of resources is to finance working capital needs and general corporate purposes.

On August 1, 2016 the Company repaid USD$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD$800.0 million with Sempra Global, in order to finance the acquisition of GdC. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance including the interests.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount USD$350.0 million with Semco Holdco. Agreed term was two months and a monthly-paid interest rate of Libor plus 110 points. In October 2016, with the proceeds from the Global Offering, the Company repaid the outstanding balance including the interests.

Guaranties and Letters of Credit

The Company's indirect controlling shareholder, Sempra Energy, provides credit support (including direct guaranties and letters of credit issued by third parties which are to be drawn on the account of Sempra Energy) for certain of the Company's obligations, including the following:

Obligor	Beneficiary of Guaranty/Letter of Credit	Secured Obligations	Maximum Amount of Guaranty/Letter of Credit
Termoeléctrica de Mexicali	Rosarito pipeline system	Firm transportation services agreement dated February 26, 2002	USD$29.4 million guaranty
IEnova Marketing	Rosarito pipeline system	Interruptible transportation services agreement dated December 18, 2009	USD$3.9 million guaranty
IEnova Marketing	Rosarito pipeline system	Firm transportation services agreement dated May 01, 2008	USD$59.6 million guaranty
IEnova Marketing	Rosarito pipeline system	Firm transportation services agreement dated February 15, 2002	USD$62.3 million guaranty
IEnova Marketing	Transportadora de Gas Natural de Baja California	Firm transportation services agreement dated May 01, 2008	USD$46.6 million guaranty
IEnova Marketing	Energía Costa Azul	Firm storage services agreement dated November 29, 2004	USD$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	USD$5.0 million guaranty
IEnova	CFE	Letter of credit from Banco Santander (México), dated October 31, 2012, in favor of the Mexican Federal Electricity Commission	USD$85.0 million guaranty
IEnova Marketing	CFE	Electricity supply agreement dated January 21, 2005	USD$85.0 million letter of credit
IEnova Marketing	CFE	Letter of credit from BBVA (México), dated December 5, 2014, in favor of the Mexican Federal Electricity Commission	USD$90.0 million letter of credit

Power Purchase Agreements

In January 2013 the Company entered into an electricity management agreement with its U.S. affiliate, Sempra Generation. Pursuant to this agreement, which is effective as of January 1, 2012, Sempra Generation has marketed and served as scheduling coordinator for the Company's electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on the Company's behalf. Under this agreement, the Company reimburses Sempra Generation's expenses in connection with these services and pay Sempra Generation an annual energy services fee based on the level of service provided to the Company's Termoeléctrica de Mexicali power plant (depending on, among other factors, the amount of energy scheduled and sold by Sempra Generation). The term of this agreement runs through 2017. During the years ended December 31, 2016, 2015 and 2014 the Company paid Sempra Generation an aggregate of USD$6.5 million, USD$6.6 million and USD$6.6 million, respectively, under this agreement. During the years ended December 31, 2016, 2015 and 2014 Sempra Generation paid to Termoeléctrica de Mexicali approximately USD$107.0 million, USD$143.1 million and USD$222.5 million, respectively, under this agreement.

Natural Gas Purchase and Sale Agreement

In January 2013 the Company entered into a scheduling agreement with Sempra Generation, an affiliate of the Company's indirect controlling shareholder, which became effective September 1, 2014. Pursuant to this agreement, Sempra Generation provides scheduling and coordination services relating to delivery of natural gas to the Company's customers, including the Mexican Federal Electricity Commission, and to the Company's Termoeléctrica de Mexicali facility. These scheduling and coordination services replaced those formerly provided by JPM Ventures Energy pursuant to an agreement that expired in September 2014, at similar prices. During the years ended December 31, 2016, 2015 and 2014 the Company paid Sempra Generation an aggregate of USD$4.4 million, USD$2.1 million and USD$0.5 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

The Company has entered into a firm transportation services agreement with Southern California Gas Company, or SoCalGas, an affiliate of the Company's indirect controlling shareholder, whereby SoCalGas Company transports natural gas for the Company's distribution business from the United States to the Mexico–U.S. border near Mexicali. The Company pays for these transportation services based on applicable rate provisions filed with the California Public Utilities Commission. During the years ended December 31, 2016, 2015 and 2014 the Company paid approximately USD$1.5 million, USD$1.0 million and USD$1.1 million, respectively, for transportation services provided by SoCalGas Company pursuant to this agreement.

The Company has also entered into several agreements with SoCalGas Company for natural gas transportation services on the Rosarito pipelines system and TGN pipeline. These interruptible transportation services agreements renew monthly and may be terminated by either party upon 30 days' notice. Amounts received by the Company under these agreements in 2016, 2015 and 2014 were less than USD$120,000. During the year ended December 31, 2013, the Company received approximately USD$0.1 million for transportation services provided to SoCalGas Company pursuant to these agreements.

LNG Purchase and Sale Agreement with Sempra Natural Gas

The Company's subsidiary IEnova Marketing purchased LNG from Sempra Natural Gas pursuant to an LNG purchase and sale agreement that expired in January 2013. Pursuant to the terms of this agreement, Sempra Natural Gas agreed to sell and IEnova Marketing agreed to purchase up to 8.2 million m^3 (1,880 MMTh) of LNG annually. To the extent that Sempra Natural Gas delivered to IEnova Marketing less than such amount of LNG, Sempra Natural Gas made payments to IEnova Marketing pursuant to this agreement to cover terminal and pipeline capacity fixed costs associated with each cargo not delivered.

In January 2013, the Company terminated the prior agreement under which it purchased LNG from Sempra Natural Gas and replaced it with a new long-term LNG sale and purchase agreement with Sempra Natural Gas. While the material terms of the new agreement are substantially similar to those of the prior agreement, it does differ in two material respects. First, the new agreement provides that Sempra Natural Gas will make a limited number of LNG cargoes available to the Company for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. Second, the new agreement corrected unintended economic consequences that resulted in larger payments being made by Sempra Natural Gas to the Company under the prior agreement when the number of cargoes delivered annually under the prior agreement was substantially lower than had been anticipated when the prior agreement had been entered into. This new LNG purchase and sale agreement with Sempra Natural Gas expires in August 2029.

In July 2015, the Company and Sempra LNG International Holdings, LLC entered into a deed of indemnity pursuant to which the payments owed to the Company in the event that Sempra Natural Gas fails to deliver to the Company 8.2 million of m^3 (1,880 MMTh) of LNG per year will be made by Sempra LNG International Holdings, LLC. On the same date, and in order to induce the Company to enter into this deed of indemnity, Sempra Global issued a guarantee pursuant to which it guaranteed the payment obligations of Sempra LNG International Holdings LLC under the deed of indemnity.

During the years ended December 31, 2016, 2015 and 2014, IEnova Marketing paid Sempra Natural Gas approximately USD$166.8 million, USD$190.5 million and USD$335.0 million, respectively, for purchases of LNG under this agreement, and Sempra Natural Gas paid IEnova Marketing approximately USD$102.0 million, USD$101.0 million and USD$90.8 million, respectively.

In January 2013, IEnova Marketing and Sempra Natural Gas terminated their prior LNG purchase and sale agreement and entered into a new LNG purchase and sale agreement that became effective September 1, 2014. Under the new agreement the Company is required to pay for natural gas at the prevailing market rate plus 1%. The new agreement expires December 31, 2022.

Amended and Restated LNG Sale and Purchase Agreement with the Tangguh Partners

The Company's U.S. affiliate, Sempra Natural Gas, purchases LNG from suppliers, including pursuant to a long-term contract with the Tangguh partners (a consortium of companies that produce LNG in the Tangguh LNG Project in Indonesia) 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 the Company's U.S. affiliate's agreement with the Tangguh partners increases the likelihood that the Company's LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that the Company will be able to satisfy at least some portion of the Company's natural gas customer commitments by selling natural gas that has been regasified at the Company's LNG terminal. The Company's U.S. affiliate's agreement with the Tangguh partners expires in 2029, and the Company is a party to the agreement solely with respect to the scheduling of delivery of LNG cargoes and to coordinate the parties' rights with respect to the use of the Company's marine terminal.

Service Agreements

The Company has contracted with various affiliates of the Company's indirect controlling shareholder for certain services provided to the Company in the ordinary course of the Company's business, including financial, marketing, commercialization, regulatory, engineering, technical and information systems services, as well as operational and management support. These agreements generally provide for reimbursement for expenses incurred plus a 5% to 7.5% markup, and may be terminated by either party upon 30 days' notice. 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, a liquidated company, provided services to gas and power segments, including administrative and operational services, and other services related to the operations in the Company's Mexican corporate offices. During the years ended December 31, 2016, 2015 and 2014, the Company paid Sempra Servicios México approximately USD$0.0 million, USD$0.0 million and USD$0.5 million, respectively, for these services.

- Sempra Services Company, a liquidated company, provided services to gas and power segments, including administrative services. During the years ended December 31, 2016, 2015 and 2014, the Company paid Sempra Services Company approximately USD$0.0 million, USD$0.1 million and USD$0.9 million, respectively, for these services.

- Sempra U.S. Gas & Power provides software and IT services to the Company's corporate segment. During the years ended December 31, 2016, 2015 and 2014, the Company paid Sempra U.S. Gas & Power approximately USD$6.9 million, USD$6.7 million and USD$7.1 million, respectively, for these services.

Gas Control and Monitoring Agreements

The Company has entered into gas dispatch and transportation services agreements with Sempra Midstream, an affiliate of the Company's indirect controlling shareholder. Pursuant to these agreements, Sempra Midstream provides monitoring and gas control services, using electronic monitoring and control systems owned by us, in order to optimize pipeline capacity and operations and enable the Company to timely respond to operational events or emergencies affecting the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station. The agreements were entered into on January 1, 2011 and have a term of 10 years. Sempra Midstream may terminate these agreements if the Company and Sempra Midstream cease to be under the common control of the Company's indirect controlling shareholder. During the years ended December 31, 2016, 2015 and 2014, the Company paid Sempra Midstream approximately USD$0.7 million, USD$0.7 million and USD$0.4 million, respectively, for these services. The amounts that the Company pays Sempra Midstream for these services will be adjusted for inflation in future years.

Other Related Party Transactions

The Company's indirect controlling shareholder and its affiliates pay fees to the Company for certain administrative services and for the use of the Company's facilities. During the years ended December 31, 2016, 2015 and 2014, the Company received approximately USD$1.7 million, USD$1.7 million and USD$1.7 million, respectively, for these services.

Sempra International provides the Company with professional services pursuant to various agreements with the Company's subsidiaries. During the years ended December 31, 2016, 2015 and 2014, the Company paid Sempra International approximately USD$8.2 million, USD$5.8 million and USD$7.3 million, respectively, for these services.

BOARD OF DIRECTORS

c) Management and shareholders

Pursuant to its bylaws, the Company is managed by a board of directors. The Company is subject to certain corporate governance and management rules established in its bylaws and the Mexican Securities Market Law, as discussed below. This discussion does not purport to be complete and is qualified by reference to the Company's bylaws and the applicable provisions of the Mexican Securities Market Law, the Geral Rules for Securities Issuers and the regulations issued by the Mexican Stock Exchange.

Board of Directors

The Company's board of directors currently consists of eleven members and is responsible for managing its businesses. Each director is appointed to serve for one year and may be reelected, but must remain in office until a successor has been appointed and taken office. Directors may be removed at any time by a decision of the Company's shareholders at a general shareholders' meeting. The members of the Company's board of directors are elected by the Company's shareholders. The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate.

Under Mexican law, at least 25% of the members of the board of directors must be "independent" within the meaning assigned to such term in the Mexican Securities Market Law. The Company's bylaws provide for an alternate director to serve in place of an elected director if such director is unable to attend a meeting of the board of directors.

The current members of the Company's board of directors were elected or reelected at the general ordinary shareholders' meeting, held on April 28, 2017.

The following table sets forth certain information regarding the current members of the Company's board of directors:

Name	Age	Title	First appointed
Carlos Ruiz Sacristán	67	Chairman of the Board	July 2012
Joseph Allan Householder	62	Director	March 2013
Jeffrey Walker Martin	55	Director	April 2017
Martha Brown Wyrsch	59	Director	April 2017
Dennis Victor Arriola	57	Director	April 2017
Kevin Christopher Sagara	56	Director	April 2017
Trevor Ian Mihalik	51	Director	April 2017
Jeffrey Stephen Davidow	73	Director*	March 2013
Aarón Dychter Poltolarek	64	Director*	March 2013
Alberto Mulás Alonso	56	Director*	April 2017
José Julián Sidaoui Dib	64	Director*	February 2017
Raul Alberto Farias Reyes	34	Secretary (not a Director)	April 2017
Rene Buentello Carbonell	48	Alternate Secretary (not a Director)	June 2012
Rodrigo Cortina Cortina	48	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 the Company's board of directors:

Carlos Ruiz Sacristán. Mr. Ruiz is the Company's Chief Executive Officer and Chairman of the Board since June 2012. From 2007 until his appointment as Chairman of the Board in June 2012, 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 some of its subsidiaries, and Grupo Creatica, S.A. de C.V. and some of its subsidiaries. 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 Mexico´s Central Bank (Banco de México), the Mexican Ministry of Finance and Public Credit from 1988 to 1992, and Petróleos Mexicanos in 1994. Mr. Ruiz holds a Bachelor's Degree in Business Administration from Universidad Anáhuac in Mexico City and an M.B.A. from Northwestern University.

Joseph Allan Householder. Joseph Allan Householder is a member of the Company's board of directors and Corporate Group President of Infrastructure Businesses of Sempra Energy. In this position, he oversees Sempra Energy operations in midstream, liquefied natural gas, renewable energy and Mexico. Previously, from 2011 to 2016, Householder served as Sempra Energy's Executive Vice President and Chief Financial Officer. From 2007 to 2011, Mr. Householder was Senior Vice President, Controller and Chief Accounting Officer of Sempra Energy, responsible for financial reporting, accounting and controls, and tax functions for the Sempra Energy companies. Prior to that, he served as Vice President of Corporate Tax and Chief Tax Counsel for Sempra Energy, overseeing Sempra Energy's worldwide tax affairs. Before joining Sempra Energy in 2001, Mr. Householder was a partner at PricewaterhouseCoopers in the firm's national tax office. Previously, he was Vice President of Corporate Development and assistant chief financial officer of Unocal, where he was responsible for worldwide tax planning, financial reporting and forecasting, and risk-management compliance. Earlier in his carreer, Mr. Householder served as an attorney and certified public accountant at several firm in the Los Angeles area. Mr. Householder currently serves on the board of directors of Advanced Micro Devices and is a member of the Tax Executives Institute, the American Institute of Certified Public Accountants, the State Bar of California and the American Bar Association. Mr. Householder holds a bachelor's degree in business administration from the University of Southern California and a law degree from Loyola Law School. Additionally, he has completed the executive program at the UCLA, Anderson School of Management.

Jeffrey Walker Martin. Jeffrey W. Martin is a member of the Company's board of directors and executive vice president and chief financial officer for Sempra Energy. In this position, he oversees all financial matters for the company, including business development and major acquisitions. Previously, from 2014 through 2016, Martin served as chairman and CEO of San Diego Gas & Electric, one of Sempra Energy's regulated California utilities. From 2010 to 2014, Martin was chairman and CEO of Sempra U.S. Gas & Power and its predecessor company, Sempra Generation. Prior to that, he was vice president of investor relations of Sempra Energy. He first joined Sempra Energy in 2004. Before joining Sempra Energy, Martin was chief financial officer of NewEnergy, Inc. and president and director of TruePricing, Inc. He also served as corporate counsel at UniSource Energy Corporation and was an attorney at the law firm of Snell & Wilmer, LLP, where his transactional practice focused on corporate and commercial finance and real estate. Martin currently serves on the board of directors of the California Chamber of Commerce and the Edison Electric Institute, as well as the board of trustees of the University of San Diego. Martin recently served on the board of directors of the National Association of Manufacturers and the San Diego Regional Chamber of Commerce. Martin holds a bachelor's degree from the United States Military Academy at West Point, a master's degree in public administration from the University of Texas, El Paso, and a law degree from the University of Miam

Martha Brown Wyrsch. Martha Brown Wyrsch is a member of the Company's board of directors and executive vice president and general counsel for Sempra Energy. As executive vice president and general counsel, Wyrsch oversees all of Sempra Energy's legal affairs, the office of Corporate Secretary and Compliance. From 2009 to 2012, she served as president of Vestas American Wind Systems, the Portland, Ore.-based affiliate of Danish-owned Vestas Wind Systems A/S. As president, Wyrsch had direct responsibility for all North American sales, construction, service and maintenance. As chair of the Vestas North American Regional Council, she also had coordinating oversight of North American-based manufacturing, supply chain and other support functions. Previously, Wyrsch served nearly 10 years at Duke Energy and its spin-off, Spectra Energy Corp. She was president and CEO of Duke Energy Gas Transmission beginning in 2005. Subsequently, she became president and CEO of Spectra Energy Transmission, overseeing its natural gas transmission and storage business in the U.S. and Canada, as well as its gathering, processing and distribution businesses in Canada. She joined Duke Energy in 1999 as senior vice president of legal affairs and deputy general counsel and was promoted to group vice president and general counsel in 2004. Prior to joining Duke Energy, Wyrsch worked at KN Energy, Inc., from 1991 to 1999 where she served as vice president, general counsel and secretary as well as a variety of other senior legal roles. Previously, she was an attorney with Davis, Graham & Stubbs in Denver, specializing in corporate law, with a focus on oil and gas, real estate transactions, as well as securities and finance filings. From 1980 to 1983, Wyrsch was a legislative assistant to former U.S. Sen. Alan Simpson (R-Wyo.), responsible for matters in the areas of energy, environment, health and safety, transportation and banking. She currently serves on the board of directors of Spectris PLC and Cristo Rey Network. Wyrsch holds a bachelor's degree in English Literature from the University of Wyoming and a law degree from George Washington University. She also completed Harvard Business School's Advanced Management Program.

Dennis Victor Arriola. Dennis Victor Arriola is a member of the Company's board of directors and executive vice president of corporate strategy and external affairs, and chief sustainabiliyty officer for Sempra Energy. In his current role, Arriola oversees Sempra Energy's long-term strategy review, as well as communications, government relations, regulatory and international affairs activities, and corporate social responsibility. Previously, he served as chairman, president and CEO of Southern California Gas Company (SoCalGas), one of Sempra Energy's regulated California utilities. Arriola spent most of the past 22 years in a broad range of leadership roles for the Sempra Energy companies. He served as president and chief operating officer of SoCalGas beginning in 2012, until he was promoted to CEO in 2014. From 2008 to 2012, Arriola left Sempra Energy to work as executive vice president and chief financial officer for SunPower Corp., a Silicon Valley-based solar panel manufacturer. From 2006 to 2008, he was senior vice president and chief financial officer of both San Diego Gas & Electric and SoCalGas. Previously, Arriola also served as vice president of communications and investor relations for Sempra Energy, and regional vice president and general manager of Sempra Energy's South American operations. He first joined the company in 1994 as treasurer for Pacific Enterprises/SoCalGas. Arriola serves on the boards of directors for the American Gas Association and California Business Roundtable (chairman of the board), and most recently served on the boards of United Way of Greater Los Angeles, Latino Donor Collaborative and Southern California Leadership Council. He has been actively involved in the United Way's efforts to implement Linked Learning in association with the Los Angeles Unified School District. Arriola holds a bachelor's degree in economics from Stanford University and a master's degree in business administration from Harvard University.

Kevin Christopher Sagara. Kevin Christopher Sagara is a member of the Company's board of directors and is president of Sempra Renewables. In his current role, he oversees all aspects of Sempra Energy's renewable energy business segment, including development, acquisitions, finance, construction and operations. Sagara has served in various commercial and legal capacities at Sempra Energy for more than 20 years. Sagara has also held senior business and legal positions in the internet and wireless technology sectors and oversaw the sale of Intervu (NASDAQ: ITVU) to Akamai Technologies for over $2.8 billion. Sagara holds a bachelor's degree in geography-ecosystems from the University of California, Los Angeles and a law degree from Hastings College of Law, where he served as note editor of the Hastings Law Journal. He currently serves on the Advisory Board for the Luskin School of Public Affairs at UCLA and is a member of the Board of Trustees of Hubbs-Seaworld Research Institute.

Trevor Ian Mihalik. Trevor Ian Mihalik is a member of the Company's board of directors and senior vice president, controller and chief accounting officer for Sempra Energy. In this position, Mihalik is responsible for managing accounting operations, preparation and analysis of financial statements, financial reporting and accounting systems, in addition to coordinating external audits. Mihalik has extensive financial and accounting experience in the energy industry, including capital markets, financial reporting, accounting, treasury, market risk and credit risk. Previously, Mihalik was the senior vice president of finance at Iberdrola Renewables Holdings, Inc., a diversified Portland, Ore.-based energy company and subsidiary of Iberdrola S.A., a multinational power and gas utility headquartered in Bilbao, Spain. Prior to Iberdrola, he worked for Chevron, where he was vice president of finance in the company's natural gas group and also served as vice president of finance and chief financial officer of Chevron's natural gas marketing, trading and storage joint venture, Bridgeline Holdings, L.P. Earlier in his career, Mihalik managed the financial aspects of power project development and utility acquisitions for a diversified international energy company. Mihalik began his career with Price Waterhouse, where he spent nine years working in the firm's energy practice in both the Houston and London offices. He serves on the accounting advisory board for San Diego State University and the advisory board for University of San Diego's School of Business Administration. Mihalik graduated cum laude with a bachelor's degree in accounting from Creighton University, holds a master's of business administration from Rice University and is a licensed CPA.

Jeffrey Stephen Davidow. Jeffrey Stephen Davidow is a member of the Company's board of directors and has extensive diplomatic experience in both Latin America and Africa. Mr. Davidow served as U.S. Ambassador to Venezuela from 1993 to 1996 and as U.S. Assistant Secretary of State for the Western Hemisphere from 1996 to 1998. From 1998 to 2002, he served as U.S. Ambassador to Mexico. In 2003, Ambassador Davidow retired from the U.S. State Department with the rank of Career Ambassador, the highest position in the Foreign Service which, by law, can be held by no more than five individuals at one time. From 2003 to 2011, Ambassador Davidow served as President of the Institute of the Americas in San Diego. He currently serves as Senior Advisor for the Cohen Group, an international business consultancy based in Washington, D.C. Ambassador Davidow has published articles in Foreign Policy and Foreign Affairs and authored two books, one on international negotiations and the other, "The U.S. and Mexico: The Bear and the Porcupine." In addition to speaking frequently on hemispheric policy and on Mexican developments for organizations such as the North American Forum, the Trilateral Commission, the Woodrow Wilson Center, the Pacific Council, the Chinese Academy of Social Sciences and the InterAmerican Development Bank, Ambassador Davidow served as an adviser to President Obama for the 2009 Summit of the Americas. He received a Bachelor of Arts from the University of Massachusetts and a Master of Arts from the University of Minnesota.

Aarón Dychter Poltolarek. Dr. Dychter is a member of the Company's board of directors and the President and Founder of ADHOC Consultores Asociados, S.C., providing consulting services in infrastructure, transportation and energy investment projects. From December 1994 to December 2006, Dr. Dychter was Undersecretary of Transportation in the Mexican Ministry of Communications and Transportation. In that capacity, he led privatization processes for railways and airports in Mexico, as well as the creation of the first suburban train system for Mexico City. Previously, he held various positions at the Mexican Ministry of Finance and Public Credit, the Mexican Ministry of Programming and Budget and the Mexican Energy Ministry. He served as Chairman of the Mexican National Steering Committee for the Normalization of Ground Transportation (*Comité Consultivo Nacional de Normalización del Transporte Terrestre*), member of the board of directors and Deputy Chairman of the Nominating and Compensation Committee of Grupo Aeroportuario del Sureste, member of the board of directors of Grupo Aeroportuario del Centro Norte, Grupo Aeroportuario del Sureste, Grupo Aeroportuario Centro Norte, Grupo Aeroportuario del Pacífico, Grupo Aeroportuario de la Ciudad de México. He currently serves as an advisor to the management of the project for the development of the new Mexico City airport and is a member of the board of directors of Grupo OCUPA and Traxion. Dr. Dychter is a graduate of Universidad de las Américas in Mexico and holds a Master's Degree and a Ph.D. in Economics from George Washington University.

Alberto Mulás Alonso. Alberto Mulás was appointed member of the Company's board of director in April 2017. From January of 2014 to December of 2016, Mr. Mulás was the head of the Banco Itau-BBA office in Mexico. Previously, from 2003 to 2013, he was in charge of CREsCE Consultores, a consulting firm, specialized in corporate aspects, finance, strategy and corporate governance. During 13 years, Alberto Mulás was involved in the investment banking activities with Donaldson Lufkin & Jenrette (from 1999 to 2001) and with Lehman Brothers (from 1992 to 1996). From 2001 to 2003, he served in the Mexican Federal Government during the administration of President Vicente Fox, where he was in charge of the design, structuring and implementation of the national housing policy, the incorporation of the National Housing Commission (Comision Nacional de Vivienda) and Federal Mortgage Company (Sociedad Hipotecaria Federal). Alberto Mulás serves in the board of directors of publicly traded and family companies, as independent member. Alberto Mulás has advised multilateral entities such as the International Monetary Fund, the Interamerican Development Bank and the World Bank. Alberto Mulás holds a Chemical Engineer degree from Universidad Iberoamericana, where he graduated with honors and holds a master's degree (MBA) from the University of Pennsylvania (1987).

Jose Julian Sidaoui Dib. Mr. Sidaoui was appointed member of the Company's board of director in February 2017. Currently, he is an advisor and independent director of several financial institutions in the country and abroad. Previously, Mr. Sidaoui worked at the World Bank and Banco de Mexico, an institution he joined in 1979. There, he held various positions in the Economic and Operations area of Central Banking, where he was General Manager for more than 10 years. In December 1994, he was appointed Undersecretary of Finance and Public Credit. In 1997, he returned to the Banco de México to serve as Deputy Governor for two consecutive terms until 2012. Dr. Sidaoui has published several articles on structural change, exports, financial markets, public finances, monetary policy and corporate governance, and best practices in Central Banking. He has participated in various working groups of the International Bank for Payments and has been professor of Economics. He holds a PhD in Economics from George Washington University, a master's degree from the University of Pennsylvania and a degree in economics from the University of the Americas, Puebla.

Functions of the Board of Directors

The Board of Directors is the Company's legal representative and is authorized to take any action, as a collegiate body, in connection with the Company's operations not expressly reserved to its shareholders.

The Board of Directors has the power, among other matters to:

- Approve the Company's general strategy;
- Authorize, with the prior opinion of the audit and corporate practices committees: (1) any transaction with related parties, subject to very limited exceptions, (2) the appointment and removal of the Chief Executive Officer and other relevant senior managers, as well as to determine their functions and remuneration; (3) the Company's internal control and internal audit guidelines and those of its subsidiaries; (4) the Company's financial statements and those of its subsidiaries, (5) unusual or non-recurring transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of the Company's consolidated assets or (b) the granting of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of the Company's consolidated assets, and (6) the appointment of external auditors;
- Call shareholders' meetings and acting on their resolutions;
- Create special committees and granting them powers and authority, with the exception of those that, by law, or under the Company's bylaws are expressly reserved to the shareholders or the Company's Board of Directors;
- Submit the Chief Executive Officer's annual report to the general shareholders' meeting (which includes the Company's audited annual financial statements) and a report about the accounting policies and criteria used for the preparation of the Company's financial statements;
- Issue an opinion on the price of Company share placements by means of Global Offerings;
- Approve the policies related to disclosure of information;
- Determine the measures to be adopted in the event that irregularities are detected; and
- Exercise the Company's general powers in order to comply with its corporate purpose.

The meetings of the Board of Directors will be validly convened and held if a majority of its members are present; and its resolutions will be valid if approved by a majority of the members present, unless the Company's bylaws require a higher number of votes. The Chairman of the Board of Directors has a tie-breaking vote. Notwithstanding the above, at any time the shareholders may override a decision made by the Board.

Meetings of the Board of Directors may be called by (1) 25% of the board members, (2) the Chairman of the Board of Directors, (3) the Chairman of the Audit Committee or the Corporate Practices Committee, or (4) the Secretary to the Board of Directors.

The Securities Market Law imposes a duty of diligence and loyalty on the directors. See "Securities Market Law".

The members of the board and, if applicable, the Secretary to the Board of Directors during meetings must abstain from participating and voting on matters in which they might have a conflict of interest with the Company, without this affecting the necessary quorum for that particular meeting.

The members of the Board of Directors and the Secretary to the Board of Directors, would breach their duty of loyalty and be liable for damages to the Company and, if applicable, its subsidiaries if they have a conflict of interest and they vote or make a decision with respect to the Company's or its subsidiary's assets or if they fail to disclose any conflict of interest they may have unless confidentiality duties prevent them from disclosing such conflict.

Committees of the Board of Directors

The Board of Directors has established an audit committee and a corporate practices committee to provide particular focus on the oversight of important aspects of the Company's transactions.

Audit Committee

The Securities Market Law requires issuers to have an audit committee, which must be comprised of at least three independent members appointed by the Board of Directors.

The current audit committee members are Aaron Dychter as President, Jose Julian Sidaoui and Alberto Mulás, who were appointed by an ordinary general meeting of Company shareholders on April 28, 2017. The Company considers that all members of its audit committee are independent and are experts in the terms of the Securities Market Law.

The audit committee has the power, among other matters to:

- Submit recommendations to the Board of Directors with respect to the appointment or removal of external auditors;
- Supervise the external auditors' work and to analyze their reports;
- Analyze and supervise the preparation of the Company's financial statements;
- Submit to the Board of Directors a report about the Company's internal controls and their suitability;
- Request information from the relevant officers of the company when it deems it necessary;
- Assist the Board of Directors in the preparation of a report on the operations and activities in which the Board of Directors has participated, in accordance with the Securities Market Law;
- Report any irregularities it may detect to the Board of Directors;
- Receive and analyze proposals and observations made by shareholders, advisors, relevant senior managers, external auditors or third parties, and adopt the necessary measures based on these recommendations or observations;
- Call shareholders' meetings;
- Ensure that transactions with related parties comply with applicable laws;
- Oversee the implementation by the Chief Executive Officer of resolutions taken by the shareholders meetings or the Board of Directors in accordance with the instructions issued by each of these bodies; and
- Provide an annual report of its activities to the Board of Directors.

The chairman of the audit committee has the responsibility of preparing an annual report about the activities of the committee for submission to the Board of Directors. This report must include at least: (1) the status of the Company's internal control and internal audit systems, and where relevant, any deviations and deficiencies they may present, as well as aspects that should be improved, considering the external auditors' and independent experts' reports; (2) the results of any preventive and corrective measures taken based on results of investigations of non-compliance with operating or financial policies, (3) the evaluation of the external auditors, (4) the main results from the review of the Company's financial statements and those of its subsidiaries, (5) the description and effects of changes to accounting policies, (6) the measures adopted as a result of observations made by shareholders, directors, relevant members of the senior management and third parties related to accounting, internal controls, and internal or external audits, (7) follow-up of the implementation of resolutions taken at shareholders' and the Board of Directors' meetings; (8) observations with respect to the performance of relevant directors and officers; and (9) the remuneration paid to relevant directors and senior managers.

Corporate Practices Committee

The current members of the Corporate Practices Committee are Jeffrey Davidow as President, Jose Julián Sidaoui, Alberto Mulás and Joseph Allan Householder, who were appointed by the ordinary general meeting of shareholders on April 28, 2017. In accordance with the provisions of the Securities Market Law, the majority of the members of the Corporate Practices Committee are independent because the Company's indirect controlling shareholder owns at least 50% of the Company's equity. Jeffrey Davidow, Jose Julián Sidaoui and Alberto Mulás are the independent members. The Company believes that all members of its Corporate Practices Committee are independent 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 the Company's senior officers as of December 31, 2016:

Name	Age	Title
Carlos Ruiz Sacristán	67	Chairman of the Board and Chief Executive Officer
Tania Ortiz Mena López Negrete	46	Chief Development Officer
Arturo Infanzón Favela	45	Chief Financial Officer
Juan Rodríguez Castañeda	52	Chief Corporate Affairs and Human Resources Officer
Jesús Córdoba Domínguez	56	Chief Engineering and Construction Officer
Carlos Barajas Sandoval	48	Chief Operating Officer
René Buentello Carbonell	48	Chief Legal Counsel
Gerardo De Santiago Tona	45	Senior Vice President of Strategic Planning
Manuela Molina Peralta	44	Vice President of Finance
Roberto Rubio Macías	44	Vice President, Controller
Jorge Molina Casellas	48	Vice President of Commercial

Juancho Eeckhout	40	Vice President of Development
Sue Bradham	47	Director of Investor Relations and M&A

The following is a summary of the experience and principal business interests of current the Company's officers:

Carlos Ruiz Sacristán. See "– Board of Directors."

Tania Ortiz Mena López Negrete. Tania Ortiz Mena has been the Company's Chief Development Officer since July 2014. She served as the Company's Vice-President for Business Development and External Affairs from 2009 to 2012, 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.

Arturo Infanzón Favela. Arturo Infanzón is the Chief Financial Officer. 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. Infanzon is a Member of the IPADE Advisory Board of Energy and the US–Mexico Energy Business Council. 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.

Juan Rodríguez Castañeda. Since May 2016, Juan Rodríguez Castañeda is IEnova´s Chief Corporate Affairs and Human Resources Officer. Previously he served as Vice President of Corporate Affairs and Human Resources from 2014 to 2016. Before joining IEnova, he spent 10 years in the aviation industry, where he served as Chief Corporate & Industry Affairs Officer from 2013 to 2014 and Chief Human Resources Officer from 2010 to 2013 at Aeroméxico. Previously he served as Chief Executive Officer at SEAT (currently Aeroméxico Servicios) in 2010 and Chief Executive Officer at Aeromexpress (currently Aeroméxico Cargo) from 2004 to 2010. Juan Rodríguez Castañeda also served in the Mexican Federal Government from 1988 to 2004, where he held several positions within the Secretary of Finance and Public Credit, the Secretary of Communication and Transportation, PEMEX, as well as the Office of the President of Mexico. His most relevant positions were Chief of Staff of three Secretaries and General Coordinator of Planning at the Ministry of Communication and Transportation. He holds a Bachelor´s Degree in Economics from the Instituto Tecnológico Autónomo de México (ITAM).

Jesús Córdoba Domínguez. Jesus Córdoba is the Company's Chief Engineering and Construction Officer since May 2016. From 2012 to 2016, Jesus Cordoba served as Company's Vice-President of Engineering and Construction. 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.

Carlos Barajas Sandoval. Carlos Barajas has been the Company's Chief Operating Officer since May 2016. Previously, from February 2014, Mr. Barajas was the Company's Vice-President of Operations and before that, from June 2013, Mr. Barajas was the Company's Vice-President for Gas. Before joining the Company, he was the General Director of the LNG Terminal in Altamira from 2007 to 2013; Business Development Director at Shell México from 2005 to 2007; Commercial Director at InterGen México from 2000 to 2005 and Commercial Manager at Energía Mayakan from 1997 to 2000. Carlos Barajas holds a bachelor's degree in Civil Engineering from the Instituto Politécnico Nacional in 1992, a master's degree in Engineering from the University of British Columbia in 2000, and a master's degree in Economics from Universidad Anáhuac in 2007.

René Buentello Carbonell. Mr. Buentello is the Company's Chief Legal Counsel since May 2016, and Deputy Secretary since 2010. From 2010 to 2016, Rene Buentello served as Vice President and General Counsel, previously, Mr. Buentello served as Business Development Director at El Paso Corporation in Mexico from 2008 to 2010. Mr. Buentello began his career in corporate law at the industrial division of Grupo Carso, where he served as Legal Manager for Grupo Nacobre and Grupo Aluminio and Deputy Secretary and Secretary, respectively, to the Board of Directors of those companies from 1990 to 2002. He then joined PEMEX, where he served in various positions in the transportation and logistical departments, developing infrastructure projects and promoting public-private partnerships in the areas permitted by the legal framework from 2002 to 2008. Mr. Buentello holds a law degree from Universidad Panamericana with specialized studies at the same university in Economic and Corporate Law, Commercial Law and International Finance Law.

Gerardo de Santiago Tona. Gerardo De Santiago has been the Company's Senior Vice-President of Strategic Planninc since May 2016. Before that, Gerardo De Santiago served as the Company's Executive Vice-President of Operations and Construction, since May 2010. Mr. De Santiago was previously Manager of Sempra Pipelines & Storage México from 2008 to 2010, which became part of Sempra International in January, 2012. He was the Chief Executive Officer of ECOGAS, 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.

Manuela Molina Peralta. Manuela ("Nelly") Molina is the Company's Vice President of Finance since July 2010. Prior to joining the 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 natural gas distribution company 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.

Roberto Rubio Macías. Mr. Rubio is the Company's Vice President Controller since May 2016. Before that, Mr. Rubio was the Company's General Controller, since 2012. From 2001 y 2012, he was Foreign Investments Accounting Manager at Sempra Energy in San Diego, Internal Auditing Manager at Luz del Sur (subsidiary of Sempra Energy at Lima, Peru), Financial Reporting Manager at IEnova in Tijuana, Controller of Termoeléctrica de Mexicali, Accounting Manager and Controller 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 Deloitte in Chihuahua from 1993 to 1996. Mr. Rubio holds a Bachelor's Degree in Accounting from Universidad Autónoma de Chihuahua, in 1995. He holds a Master Degree in Business Administration from the Universidad Autonoma de Chihuahua, in 2001. He has been registered as a certified public accountant with the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*) since 2001, and holds a Master Degree from Instituto Tecnológico y de Estudios Superiores de Monterrey, in Innovation for Business Development in 2017.

Jorge Molina Casellas. Jorge Molina has been the Company's Vice President of Commercial since May 2016. From 2012 to 2016, Mr. Molina acted as Business Director and has occupied managing positions in the commercial, finance, projects, regulation and operations areas and in various business units since joining the Company in 1997. Prior to joining us, Mr. Molina served as a financial advisor at Bancomer from 1993 to 1997. Mr. Molina holds a Bachelor's Degree in Business Administration and a Masters Degree in Corporate Finance from Centro de Enseñanza Técnica y Superior Campus Mexicali.

Juancho Eekhout Smith. Juancho Eekhout has been the Company's Vice President of Development since August of 2016. Previously, Mr. Eekhout held various roles in the family of companies of Sempra Energy. From 2014 to 2016, Mr. Eekhout acted as Senior Director of Commercial Development at Sempra LNG. From 2010 to 2013, Mr. Eekhout worked at San Diego Gas & Electric as Organization Director and afterwards as Strategic Planning Director. Juancho Eekhout started his career at Sempra in 2008, in the corporate department, as M&A Director. Prior to joining us, Mr. Eekhout worked for BP for eight years in the oil trading, refinery and fuel commercialization segments. Mr. Eekhout holds a Bachelor's Degree in Economics from Universidad Católica Andres Bello and a Masters in Public Policy From University of Chicago.

Sue Bradham. Sue Bradham has been the Company's Director of Investor Relations and Mergers & Acquisitions since June 2016. From August 2002 to June 2016, she served in various commercial and strategic roles across Sempra International, Sempra LNG, and Sempra U.S. Gas & Power. Before joining Sempra Energy in 2002, Ms. Bradham worked as a management consultant at Booz Allen & Hamilton and as an engineer in project development and operations roles at ExxonMobil. Ms. Bradham holds a Bachelor's Degree in Mechanical Engineering from Stevens Institute of Technology and a Master's Degree in Business Administration from the Wharton School at the University of Pennsylvania. She is a registered Professional Engineer in the state of Texas.

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.

Business Address of the Company's Directors and Senior Officers

The business address for all members of the Company's board of directors and senior officers is Torre New York Life, Paseo de la Reforma No. 342, Piso 24, Colonia Juárez, 06600 Ciudad de México, Attention: Infraestructura Energética Nova, S.A.B. de C.V.

Family Relationships

There are no family relationships among the Company's directors and senior officers, or among the Company's directors and senior officers and the directors and senior officers of the Company's indirect controlling shareholder.

Legal Proceedings Involving the Company's Directors or Senior Officers

As of the date of this report, there are no judicial or administrative proceedings pending against any of the Company's directors and/or senior officers.

Shareholding (April 17, 2017)

Shareholders with more than 10% of issuer's equity: Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex; 28.4%

Shareholders with significant influence: none

Shareholders with control: Semco Holdco, S. de R.L. de C.V., 66.6%

Internal Control

The Company has 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 the Company's internal control over financial reporting.

Compensation of the Company's Directors and Senior Officers

The aggregate amount of compensation paid by the Company to the members of the senior management for the years ended December 31, 2016, 2015 and 2014, was USD$7.1 million, USD$8.9 million and USD$6.5 million, respectively. The Company continuously reviews the salary, bonus and other compensation plans to offer competitive compensation arrangements for the management.

The Company's director compensation plan covers only independent, non-employee directors. Each of the Company's independent directors receives (i) an annual fee of USD$21,100, payable in four equal quarterly payments and (ii) an annual fee of USD$33,900 for their performance as board and committee members, payable in four equal quarterly payments. Additionally, the Company's independent directors receive compensation that is tied to the performance of the Company's stock. These values will be convertible once a year, pursuant to the terms determined by the special delegates appointed for such purpose, and subject to such director continuing to exercise his or her duties as of the conversion date. Nonindependent directors do not receive any compensation for their services as directors or members of the audit or corporate governance committees.

The terms of this phantom stock compensation are determined by a committee of the Company's board of directors composed entirely of non-independent directors.

Also, as of December 31, 2016 and 2015, the Company's accrued amount for pension, retirement or similar plans that correspond to members of the board, relevant directors and other related parties was USD$1.3 million and USD$0.63 million, respectively.

Executive Restricted Grants

In addition to salary, members of the Company's senior management team annually receive time and performance based restricted grants. Performance-based grants are based upon the performance of the Company's stock and other performance metrics. Long-term executive restricted grants is detemined according to Sempra and Ienova stock price performance, and others. It will be paid in cash and / or shares of Sempra, as the case may be, after three years of having been granted and subject to the executive remaining in service on such date. The restricted grants based on Ienova's shares, will be paid in cash.

Seniority Compensation Plan

Pursuant to Mexican Federal Labor Law, the Company grants seniority fees to employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of salary for each year of employment (based on the last salary of the employee, but not higher than twice the minimum legal wage). This fee is paid to all employees with 15 years or more of service and when the Company unilaterally severs employment.

DESCRIPTION OF THE COMPANY'S CAPITAL STOCK AND BYLAWS

d) The Company's Bylaws and Other Agreements

Set forth below is a description of the Company's capital stock and a brief summary of certain significant provisions of the Company's bylaws and Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to the Company's bylaws and the relevant provisions of Mexican law.

General

The Company was incorporated on April 2, 1996 under the name "Enova de México, S.A. de C.V." and subsequently, on April 25, 2008, became a limited liability company (*sociedad de responsabilidad limitada*) organized pursuant to the Mexican Corporations Law and changed the Company's name to "Sempra Energy México, S. de R.L. de C.V." On December 3, 2008 the Company changed its name to "Sempra México, S. de R.L. de C.V." On February 15, 2013, the Company transformed into a variable capital stock corporation (*sociedad anónima de capital variable*), which transformation became effective on February 20, 2013. On March 1, 2013, the Company changed its name to "Infraestructura Energética Nova, S.A. de C.V." Through a unanimous resolution on March 6, 2013, the Company's shareholders approved amending and restating the bylaws to conform them to the provisions of the Mexican Securities Market Law applicable to public companies, to adopt the form of a variable capital publicly traded corporation (*sociedad anónima bursátil de capital variable*) and to change the name to "Infraestructura Energética Nova, S.A.B. de C.V." On October 7, 2016, the Twenty-eighth Clause of the articles of incorporation was amended in order to suppress the requirement to publish calls within the official period in the company's domicile or through any widely read newspaper in said place, and to include instead the publication through the Electronic system of Publications for Commercial Corporations of the Economics Ministry. A copy of the Company's amended and restated bylaws has been filed with the Mexican National Banking and Securities Commission and the Mexican Stock Exchange, and is available for review at www.bmv.com.mx.

The duration of the Company's corporate existence is indefinite. The Company is a holding company and conduct all of its operations through its subsidiaries.

Capital stock

Because the Company is a variable capital stock corporation, the Company's capital stock must have a fixed portion and may have a variable portion. As of the date of this report the Company's issued and outstanding capital stock consists of 1,534,023,812 shares of a single series of common stock, no par value, of which 5,000 are Class I shares representing the Company's fixed capital and 1,534,018,812 are Class II shares representing the Company's variable capital. In addition, the Company has 330,000,000 Class II shares held in treasury, which will be available for sale in connection with a projected public offering. The Company's shares are not subject to any ownership restrictions and, accordingly, may be issued to and held by both Mexican and non-Mexican investors.

Changes in the Company's Capital Stock in the Past Three Years

In the last four years, during corporate years 2016, 2015, 2014 and 2013, the Company's equity capital was increased on the following dates: (i) In a shareholders' meeting on February 15, 2013, an increase in the capital stock in MXN$1.00 subscribed and paid by Sempra Energy Holdings XI, B.V. and the transformation of the Company into a variable capital company were authorized; (ii) through unanimous resolutions of shareholders on March 6, 2013, an increase in the Company's capital stock in the amount of MXN$2,339 million and the issuance of up to 233,978,328 ordinary, registered Class II shares were authorized. As to the initial public offering of the Company, 218'110,500 ordinary registered Class II shares were placed at an initial price of MXN$34.00 per Share for an aggregate amount of MXN$7,400 million and (iii) in an extraordinary general shareholders' meeting held on October 7, 2016, the increase of the Company's capital equity in MXN$3,800 million and the issuance of up to 380 million ordinary registered Class II shares to be offered and place fully in the Company's subsequent public offering was authorized.

Voting Rights and Shareholders' Meetings

All of the Company's shares have full voting rights. Each share entitles the holder to one vote at any meeting of the Company's shareholders.

Pursuant to the Company's bylaws, the Company may hold ordinary or extraordinary shareholders' meetings. Ordinary shareholders' meetings are those which are called to discuss any matter that is not reserved for discussion at an extraordinary shareholders' meeting. The Company must hold an ordinary shareholders' meeting at least once each year, within the first four months following the end of the Company's fiscal year, to discuss, among other things, the approval of the financial statements, the report prepared by the board of directors on the financial statements, the appointment of members of the board of directors and the determination of the compensations of the members of board of directors.

Extraordinary shareholders' meetings are those which are called to discuss, among others, the following matters:

- i) an extension of the duration of the Company's corporate existence;
- ii) the Company's dissolution;
- iii) an increase or decrease in the Company's capital stock;
- iv) a change in the Company's corporate purpose or nationality;
- v) any transformation, merger or spin-off involving us;
- vi) any stock redemption or issuance of preferred stock;
- vii) any redemption of the Company's shares using retained earnings;
- viii) the issuance of bonds, debentures, obligations, debt or equity instruments, or other similar instruments;
- ix) the cancellation of the registration of the Company's shares with the Mexican National Securities Registry or the delisting of the Company's shares from any stock exchange;
- x) amendments to the Company's bylaws; and
- xi) any other matter for which Mexican law or the Company's bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held in the same city as the Company's corporate offices, which are in Tijuana, Baja California. Shareholders' meetings may be called by the chairman of the Company's board of directors, the chairman of the audit committee, the chairman of the corporate governance committee, the secretary or a Mexican court of competent jurisdiction. In addition, any holder of at least 10% of the Company's outstanding capital stock has the right to request that the Company's board of directors, the audit committee or the corporate governance committee call a shareholders' meeting to discuss the matters indicated in the relevant request.

Notices of shareholders' meetings must be published in the Electronic System of Publications of Mercantile companies of the Ministry of Economy, at least 15 calendar days prior to the date of the meeting. Each notice must set forth the place, time and agenda for the meeting and must be signed by the person convening the meeting. From the date on which a notice is published until the date of the meeting, all relevant information regarding such meeting must be made available to the shareholders.

To be admitted to a shareholders' meeting, shareholders must submit evidence of the deposit of their stock certificates with a financial institution, brokerage firm or securities depositary, at least one day prior to the relevant meeting. The Company will then issue certificates that can be used to gain admission to the meeting. Shareholders may designate one or more authorized representatives with general or special powers and authority to represent them at a meeting, or appoint a representative using the proxy forms that the Company will make available during the 15-day period prior to each meeting.

Quorums

Ordinary meetings are legally convened on a first notice when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at ordinary meetings of shareholders pursuant to a first notice are valid when approved by the holders of the majority of the voting shares present at such meeting. At meetings called by a second notice, any number of shares represented at an ordinary meeting of shareholders constitutes a quorum and resolutions are valid when approved by the holders of a majority of the shares represented at the meeting.

Extraordinary shareholders' meetings and special shareholders' meetings are legally convened on a first notice when at least 75% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a first notice are valid when adopted by the holders of over 50% of the Company's outstanding voting shares. At extraordinary shareholders' meetings called by a second or subsequent notice, meetings are legally convened when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders called pursuant to a second or subsequent notice are valid when adopted by the holders of shares representing over 50% of the Company's outstanding voting shares

Approval from the holders of shares representing 95% of the Company's capital stock, whether voting or non-voting, is required to request to the Mexican Banking and Securities Commission that the registration of the Company's shares on the Mexican Securities Registry be canceled in accordance with the Mexican Securities Market Law and other applicable laws.

Dividends and Distributions

Typically, at an annual ordinary shareholders' meeting, the board of directors submits the Company's financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of the Company's net profits for the preceding fiscal year. By statute, prior to any distribution of dividends, the Company is required to allocate 5% of the Company's net profits to a legal reserve fund until the legal reserve fund equals 20% of the Company's paid-in capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including amounts allocated to a reserve for the repurchase of shares. The remaining balance, if any, may be distributed as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been restored.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. If and when the Company declares dividends, the Company will distribute through Indeval cash dividends for shares held through Indeval. Any cash dividends on shares evidenced by physical certificates will be paid upon surrendering to the Company the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

Changes to The Company's Capital Stock

The fixed portion of the Company's capital stock may be increased or decreased by a resolution adopted by the Company's shareholders in an extraordinary shareholders' meeting, provided that the Company's bylaws are concurrently amended to reflect the increase or decrease in capital stock. The variable portion of the Company's capital stock may be increased or decreased by the Company's shareholders in an ordinary shareholders' meeting without the amendment of the Company's bylaws.

Increases or decreases in the fixed or variable portion of the Company's capital stock must be recorded in the Company's registry of capital variations, which the Company is required to maintain under the Mexican Corporations Law. The minutes of any shareholders' meeting where the Company's fixed capital is increased or decreased must be notarized and registered before the corresponding Public Registry of Commerce. New Shares cannot be issued unless the issued and outstanding Shares at the time of the issuance have been paid in full, except in certain limited circumstances.

Share Repurchases

The Company may choose to acquire the Company's own shares through the Mexican Stock Exchange on the following terms and conditions:

- The acquisition must be carried out through the Mexican Stock Exchange;
- The acquisition must be carried out at market price, unless a public tender offer or auction has been authorized by the Mexican Banking and Securities Commission;
- The acquisition must be carried out against the Company's stockholders' equity without adopting a reduction in capital stock, or against the Company's capital stock, and the shares so acquired will be held as treasury shares. No shareholder consent is required for such purchases;
- The amount of shares and the price paid in all share repurchases must be made public;
- The maximum amount to be spent in a fiscal year for the repurchase of shares must be determined by the Company's shareholders at their annual ordinary meeting;
- The Company may not be delinquent on payments due on any outstanding debt issued by the Company that is registered with the Mexican Securities Registry;
- Any acquisition of shares must be in conformity with the requirements of Article 54 of the Mexican Securities Market Law; and
- The Company must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which the Company's shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which the Company owns such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting.

Ownership of Capital Stock by Subsidiaries

The Company's subsidiaries may not, directly or indirectly, invest in the Company's shares, except for shares acquired as part of an employee stock option plan and in conformity with the Mexican Securities Market Law.

Redemption

In accordance with the Company's bylaws, shares representing the Company's capital stock are subject to redemption in connection with either (1) a reduction of capital stock, or (2) a redemption with retained earnings, which in either case must be approved by the Company's shareholders at an extraordinary meeting. In connection with a capital reduction, the redemption of shares must be made pro rata among the shareholders. In the case of a redemption with retained earnings, such redemption shall be conducted (a) by means of a tender offer conducted on the Mexican Stock Exchange at prevailing market prices, (b) pro rata among the shareholders, or (c) if the redemption is at a price different from the prevailing market price, shares to be redeemed shall be selected by lot.

Dissolution and Liquidation

In the event of the Company's dissolution, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up the Company's business and affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any liquidation proceeds.

Registration and Transfer

The Company's shares have been registered with the Mexican Securities Registry as required under the Mexican Securities Market Law and the regulations issued by the Mexican Banking and Securities Commission. Shares are evidenced by certificates issued in registered form, which are to be deposited with Indeval at all times. The Company's shareholders may only hold their shares in book-entry form through participants that have accounts with Indeval. Indeval is the holder of record in respect of all shares. Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and other entities authorized by the Mexican Banking and Securities Commission to be participants at Indeval. In accordance with Mexican law, only persons listed in the Company's stock registry and holders of certificates issued by Indeval or by Indeval participants will be recognized as the Company's shareholders. Such shareholders may exercise rights in respect of those shares at meetings of shareholders or otherwise. Transfers of shares must be registered through book entries on the records of Indeval.

Preemptive Rights

Under Mexican law and the Company's bylaws, the Company's shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if the Company issues additional shares of capital stock, the Company's shareholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Shareholders must exercise their preemptive rights within the time periods set forth by the Company's shareholders at the meeting approving the relevant issuance of additional shares. This period may not be less than 15 days following the publication of notice of the issuance in the Mexican Official Gazette and in a newspaper of general circulation in Mexico City.

Under Mexican law, shareholders cannot waive their preemptive rights in advance, and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share certificate. Preemptive rights will not apply to (1) shares issued by the Company in connection with mergers, (2) shares issued in connection with the conversion of convertible securities, the issuance of which was approved by the Company's shareholders, (3) shares issued in connection with the capitalization of items included in the Company's statement of financial position, (4) the resale by the Company of shares held in the Company's treasury as a result of repurchases of shares conducted by the Company on the Mexican Stock Exchange, and (5) shares to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which permits the non-applicability of preemptive rights in connection with public offerings by existing public companies, if the issuance of those shares was approved at a general shareholders' meeting.

Certain Minority Protections

Pursuant to the Mexican Securities Market Law and the Mexican Corporations Law, the Company's bylaws include a number of minority shareholder protections. These minority protections include provisions that allow holders of at least 10% of the Company's outstanding shares entitled to vote (including voting in a limited or restricted manner):

a. to request that a shareholders' meeting be called;

b. to request that resolutions, with respect to any matter on which they were not sufficiently informed, be postponed; and

c. to appoint or revoke the appointment of one member of the Company's board of directors and one alternate member of the Company's board of directors.

The minority protections include provisions that also allow holders of at least 20% of the Company's outstanding share capital to oppose and file a petition for a court order to suspend any resolution adopted at a shareholders' meeting, provided that (1) the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, (2) the challenged resolution violates Mexican law or the Company's bylaws, (3) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution, and (4) the opposing shareholders deliver a bond to the court to secure payment of any damages that the Company may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder.

However, these provisions have seldom been invoked in Mexico, and, as a result, it is uncertain how a competent court may enforce them.

The minority protections include provisions that also allow holders of at least 5% of the Company's outstanding shares to initiate an action for civil liabilities against some or all of the Company's directors in a shareholder derivative suit for the Company's benefit, for violations of their duty of care or their duty of loyalty, in an amount equal to the damages or losses caused to us. Such actions have a five-year statute of limitations.

Anti-Takeover Protections

The Company has included anti-takeover protections in the Company's bylaws. Generally, these provisions require board approval for acquisitions of the Company's shares at thresholds that are different than the statutory tender offer rules set forth in the Mexican Securities Market Law.

Definitions

For purposes of these anti-takeover provisions only, the following terms shall have the following meanings:

"Shares" means the Company's shares of stock, regardless of class or series, as well as any certificate, security or instrument whose underlying assets are the Company's shares and which confers a right to or is convertible into the Company's shares, including any financial derivative instrument.

"Control," "controlling" or "controlled by" means: a person's (i) direct or indirect ownership, individually or together with other related persons, of a majority of the voting shares of common stock of a corporation, or any certificates or other instruments representing such shares; (ii) power or ability to appoint a majority of the members of the board of directors or the administrator of an entity, investment fund, trust or similar vehicle, company, corporation or other economic or business venture, whether directly or indirectly through the exercise of the voting rights conferred by such person's shares or interests, or through any agreement to the effect that a third party's shares or interests shall be voted in the same manner as such person's shares or interests; or (iii) power to determine, directly or indirectly, the policies and/or decisions of the management or the course of the business of an entity, trust or similar vehicle, company, corporation or other economic or business venture.

"20% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 20% or more of the Company's voting shares.

"40% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 40% or more of the Company's voting shares.

"Related person" means any individual or entity, corporation, investment fund, trust or similar vehicle, company or other economic or business venture, or the spouse, companion or any relative by blood, marriage or adoption within four degrees, or any subsidiary or affiliate of any of the above, that (a) belongs to the same economic group as any person intending to acquire shares or is a subsidiary or an affiliate of such person, (b) is acting or has the power to act in concert with the person intending to acquire shares, or (c) has the power to influence the investment decisions of such person.

General

Subject to certain exceptions, the Company's bylaws provide that any person who, individually or together with other related persons, wishes to acquire the Company's shares or the beneficial ownership of the Company's shares, directly or indirectly, in one or more transactions, regardless of the time of each transaction or the percentage of shares maintained by such person individually or together with other related persons prior to the acquisition, that result in such person holding individually, or together with such other related persons, shares representing 10% or more of the Company's outstanding capital stock, must (1) obtain the prior written approval of the Company's board of directors before undertaking the transaction, and (2) where such acquisition would result in a 20% Interest, a 40% Interest or a change in the Company's control, fulfill additional requirements as set forth below.

The Company will not recognize the ownership of shares acquired without approval or in violation of the Company's anti-takeover provisions, nor will the Company record such shares in the Company's stock registry, even if the acquirer holds other shares of the Company's common stock. Furthermore, a person that is deemed to have acquired the Company's shares in violation of the Company's anti-takeover protections will not be able to vote such shares or exercise any corporate rights associated with them (other than dividend and other economic rights). In addition, a person that acquires shares in violation of the Company's bylaws is obligated to sell those shares through one or more transactions in the Mexican Stock Exchange within 90 days of the date on which such shares are acquired.

Board Approvals

A potential acquirer must obtain the prior approval of the Company's board before undertaking any of the transactions described above. To obtain such approval, the potential acquirer must submit to the Company's board a written authorization request that contains certain details about the transaction, the acquirer and the source of the funds. If the Company's board of directors does not approve the request in the manner and within the time periods provided in the Company's bylaws, the authorization request will be deemed to be denied.

Mandatory Tender Offers in Connection with Certain Acquisitions

If the Company's board of directors authorizes an acquisition of the Company's shares that results in the acquisition of a 20% interest but less than a 40% interest, regardless of such authorization the acquirer must make a cash tender offer for the greater of (1) the percentage of the Company's outstanding shares that it is expected to acquire, or (2) 10% of the Company's outstanding shares, provided that such acquisition would not result in a 40% interest or a change of control. In the event that the Company's board of directors authorizes an acquisition that results in a 40% interest or a change of control, regardless of such authorization the acquirer must make a cash tender offer for 100% of the Company's outstanding shares at a price which cannot be lower than any of the following: (i) the book value of the Company's shares as reported on the last quarterly income statement approved by the Company's board of directors; (ii) the highest closing price of the Company's shares on the Mexican Stock Exchange during any of the 365 days preceding the date of the board resolution approving the acquisition; or (iii) the highest price paid for any shares, at any time, by the acquirer. Furthermore, all shareholders must be paid the same price for shares tendered in connection with the offer. The mandatory tender offer provisions of the Company's bylaws generally are more stringent than similar provisions contained in the Mexican Securities Market Law. The Company believes the provisions of the Company's bylaws are more protective of minority shareholders than the current Mexican Securities Market Law.

Exceptions

Certain transactions are exempt from the anti-takeover provisions of the Company's bylaws, including, among others, direct or indirect acquisitions or transfers through inheritance, acquisitions or transfers by a person or persons controlling us, such as the Company's indirect controlling shareholder, Sempra Energy (including transfers resulting in a change of control of the person or persons controlling us), acquisitions or transfers by us, the Company's subsidiaries, the Company's affiliates or any trust created by the Company or any of the Company's subsidiaries, or acquisitions or transfers authorized by the Company's board of directors or at a meeting of the Company's shareholders.

Registration of Changes in The Company's Anti-Takeover Provisions

Any amendment to the Company's anti-takeover protections must be registered with the Public Registry of Commerce.

Cancellation of the Registration of The Company's Shares With the Mexican Securities Registry

In the event of cancellation of the registration of the Company's shares with the Mexican Securities Registry, whether at the Company's request or by resolution of the Mexican Banking and Securities Commission, the Company's controlling shareholders will be required to conduct a tender offer to purchase all the outstanding shares of the Company's capital stock that are owned by the Company's other shareholders. Under Mexican law and the Company's bylaws, the Company's controlling shareholders are those who own a majority of the Company's outstanding shares or have the power or ability to determine the outcome of actions requiring approval by the Company's shareholders during a shareholders' meeting, appoint or remove a majority of the members of the Company's board of directors, managers or other similar individuals, or determine, directly or indirectly, the course of the Company's management, strategies or principal policies.

Under Mexican law and the Company's bylaws, if after the tender offer is completed there are still outstanding shares held by the general public, the Company's controlling shareholders will be required to create a trust for at least six months, into which they will be required to contribute funds in an amount sufficient to purchase, at the same price as the offer price, all of the outstanding shares held by those members of the general public that did not participate in the offer.

The offer price will be the higher of: (i) the weighted average trading price of the Company's shares on the Mexican Stock Exchange during the 30-day period preceding the offer or (ii) the book value of the Company's shares in accordance with the most recent quarterly report submitted to the Mexican Banking and Securities Commission and the Mexican Stock Exchange. The voluntary cancellation of the registration of the Company's shares will be subject to (a) the prior authorization of the Mexican Banking and Securities Commission and (b) the authorization of the holders of no less than 95% of the Company's outstanding shares during a general extraordinary shareholders' meeting.

Additional Matters

Variable Capital

The Company is permitted to issue shares representing fixed capital and shares representing variable capital. The issuance of variable-capital shares, unlike the issuance of fixed capital shares, does not require an amendment of the Company's bylaws, although it does require a majority vote of the Company's shareholders. A holder of variable capital shares that wishes to effect a total or partial withdrawal of such shares is required to give the Company written notice of such circumstance. If a notice of withdrawal is received prior to the last quarter of the fiscal year, the withdrawal becomes effective at the end of the fiscal year in which the notice was given. Otherwise, the withdrawal becomes effective at the end of the following fiscal year.

Forfeiture of Shares

As required by Mexican law, the Company's bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to the Company's property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between the Company and the Mexican government. Non-Mexican shareholders will be deemed to have agreed not to invoke the protection of their own government with respect to such matters, and the breach of such deemed agreement may result in the forfeiture to the Mexican government of such interest or participation. Mexican law requires that this provision be included in the bylaws of all Mexican corporations unless the bylaws prohibit ownership of shares by non-Mexican persons.

Conflicts of Interest

Pursuant to the Mexican Corporations Law, none of the Company's shareholders may participate in any deliberation of, or vote on, any business transaction in which its interest conflicts with ours. Violation of this law may result in the shareholder being liable for damages, but only if the transaction would have not been approved without the shareholder's vote.

Appraisal Rights

Pursuant to the Mexican Corporations Law, if the Company's shareholders approve a change in the Company's corporate purpose, nationality or corporate form, any shareholder entitled to vote that voted against the approval of such matter will be entitled to withdraw its shares and receive the book value of such shares as set forth in the financial statements last approved by the Company's shareholders. This appraisal right may only be exercised within 15 days following the adjournment of the meeting at which the relevant change was approved.

e) Other Corporate Governance Practices

Board of Directors

The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate. See "Board of Directors."

Code of Ethics

IEnova's values guide the Company's interaction with government bodies and regulators, customers, the community, companies and the Company's co-workers. Therefore, all Company employees are encouraged to understand and adhere to the standards contained in the Code of Ethics.

The Company's Code of Ethics is a clear, useful and practical guide for ethical and legal compliance in the Company's workplace. It is a decision-making tool that describes the Company's 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 the Company's code of Ethics and affects the Company's 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

The Company's sustainability strategy, which encompasses the areas of financial, social and environmental sustainability, is aimed at creating value for ourselves, the Company's shareholders, customers and employees, and the communities to which the Company belongs.

The Company has characterized itself for its commitment to operating in strict compliance with the law and the regulations for the Company's industry, which has allowed it to earn and retain the confidence of the Company's various groups of constituents.

The Company's achievements in this area include the publication of the Fourth Sustainability Report (GRI, 30 indicators audited by Deloitte, Communication on progress (COP) report to UN Global Compact and, from February, 2017 and for the third consecutive year, IEnova has been a party of the Mexican Stock Exchange's Sustainability Index. In addition and for the third consecutive year, the Company attained *Great Place to Work* certification for a second, consecutive year and was recognized as a *Socially Aware Company* by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía*). Likewise, during 2015, Fundación IEnova, A. C. was incorporated to support organizations and programs that contribute to the well-being of the communities with which the Company operates, and to preserve the environment. During 2016, through IEnova foundation, the Company granted donations to 12 organizations with 19 projects in ten cities within six states of Mexico.

These actions show IEnova's commitment with continuous improvement and with the implementation of high environmental operation, protection and preservation standards, working practices, corporate governance and social responsibility with the communities the Company operates in.

For further information on the Company's sustainability efforts, please see Ienova's 2016 Sustainability Report, available on May 31, 2017. www.ienova.com.mx

TRADING MARKET

a) Share Ownership Structure

Not applicable.

PERFORMANCE OF THE COMPANY'S SHARES ON THE MEXICAN STOCK EXCHANGE

b) Performance of The Company's Shares on the Mexican Stock Exchange

The Company's shares were first listed for trading on the Mexican Stock Exchange on March 27, 2013, under the symbol "IENOVA." Prior to that date, there had been no public market for the Company's shares.

On March 31, 2017, the closing price for the Company's shares on the Mexican Stock Exchange was Ps.89.22 per share. The following tables set forth the reported, high and low sales prices for the Company's shares on the Mexican Stock Exchange during the periods indicated. These prices constitute historical prices between financial intermediaries, do not include any commission and are not necessarily representative of prices in actual transactions. Since September 2, 2013, the Company's shares have been included in the Mexican Stock Exchange's Stock Price Quote Index (*Índice de Precios y Cotizaciones*).

Annual highs and lows:

Year	High	Low	Last	Average Trading

				Volume
2013	56.02	38.66	52.17	1,886,829
2014	85.90	51.50	73.80	1,034,837
2015	77.78	69.04	92.12	1,139,929
2016	90.61	67.22	90.33	2,659,053

Source: IEnova, based on Bloomberg data. Pesos per share

Quarterly highs and lows, last three years:

Year	Quarter	High	Low	Last	Average Trading Volume
2014	First	69.60	51.50	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	84.34	69.84	83.24	1,137,804
	Second	92.12	77.84	77.84	1,204,334
	Third	83.28	69.04	69.04	1,112,690
	Fourth	81.21	69.84	72.34	1,088,420
2016	First	75.43	69.92	70.63	1,066,654
	Second	77.03	67.22	77.03	1,712,142
	Third	79.51	71.8	75.8	1,150,464
	Fourth	90.33	74.97	90.33	6,774,397
2017	First	93.01	83.60	89.22	2,268,024

Source: IEnova, based on Bloomberg data. Pesos per share

Monthly highs and lows, last six months:

Year	Month	High	Low	Last	Average Trading Volume
2016	October	83.97	74.97	83.68	8,631,988
	November	88.47	77.34	87.61	8,952,084
	December	90.33	86.83	90.33	2,842,819
2017	January	92.93	89.69	92.05	2,612,478
	February	93.01	85.01	85.93	1,846,009
	March	89.84	83.6	89.22	2,345,584

Source: IEnova, based on Bloomberg data. Pesos per share

As of December 31, 2015, the Company had 3,697 shareholders of record. This number does not include those shareholders who hold their shares through either an intermediary or a trust. The Company's actual number of shareholders is greater than the Company's number of shareholders of records as it includes beneficial owners whose shares are held through intermediaries. The number of registered shareholders does not include either those shareholders who own shares through trusts.

c) Market Maker

On June 7, 2013, the Company announced that the Company had entered into a Market-making Services Agreement with Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México), or Credit Suisse Mexico. On December 7, 2015, the Company announced the renewal of such agreement for an additional six-month period. Pursuant to such agreement, Credit Suisse Mexico has agreed to submit purchase and sale bids for the Company's shares of stock on a firm basis and for its own account, in order to foster the increased liquidity of the Company's shares, establish price benchmarks and contribute to the continuing, stable performance of the Company's shares.

- Type of securities: Shares
- Trading symbol (issuer and series): IENOVA*
- ISIN/CUSIP No.: MX01IE060002

More specifically, Credit Suisse Mexico has agreed to submit purchase and sale bids totaling Ps.400,000, subject to a 0.5% spread. Since Credit Suisse Mexico began acting as the Company's market maker, the operation spread for the Company's shares has decreased to less than 0.5%, with an average daily trading volume of 1,602,803 shares.

On December 6, 2016, the Company announced the termination of the Market Maker Agreement with Credit Suisse México.

UNDERLYING ASSETS

Not applicable.

MANAGEMENT CERTIFICATION

April 28, 2017

We, Carlos Ruiz Sacristan, Arturo Infanzon Favela and René Buentello Carbonell, in our capacities of Chief Executive Officer, Executive Vice President of Finance (CFO) and Executive Vice President General Counsel (Legal Director) of Infraestructura Energética Nova, S.A.B. de C.V, respectively, and in accordance with the provisions of Article 33, section I, paragraph (b) of the General Provisions Applicable to the Securities Issuers and Other Participants in the Securities Market, issued by the National Banking and Securities Commission, hereby declare the following:

The undersigned declare under oath that within the scope of our respective duties, we have prepared the information relating to Infraestructura Energética Nova, S.A.B. de C.V, contained in this Annual Report for the year ended December 31 2016, 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.

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Carlos Ruiz Sacristán
Chief Executive Officer

____

Arturo Infanzón Favela.
Executive Vice President of Finance
(CFO)

____

Rene Buentello Carbonell
Executive Vice President General Counsel
(Legal Director)

EXHIBIT

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

Consolidated Financial Statements for the years ended December 31, 2016, 2015 and 2014 and Independent Auditor´s Report Dated February 21, 2017

Index to the notes to the consolidated financial statements

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

Opinion

We have audited the accompanying consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (the "Company" or "IEnova"), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit, 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.

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 as of December 31, 2016, 2015 and 2014, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the codes of ethics issued by the International Ethics Standards Board for Accountants and the Mexican Institute of Public Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Business acquisitions

As described in Note 11.1 to the consolidated financial statements, on September 26, 2016, IEnova acquired the remaining equity in Gasoductos de Chihuahua. Transaction price was $1.143.8 million, resulting in the recognition of goodwill of $1,497.0 million and a re-measurement gain of $673.1 million as of December 31, 2016. Also, as described in Note 11.2 to the consolidated financial statements, on December 14, 2016, IEnova acquired 100% of the equity interests in the Ventika. Transaction price was $434.7 million resulting in the recognition of goodwill of $129.1 million.

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We performed risk assessment procedures that included the understanding of the business rationale of the acquisition, the design and implementation of controls established by management over the acquisitions and the evaluation of risk of fraud. The most relevant risks identified were as follows:

- Risks that the Company incorrectly determined the fair values of property, plant and equipment or intangible assets, resulting in an inappropriate determination of goodwill which is not amortized but subject to impairment tests.

- We tested the operating effectiveness of controls established by management addressing these risks and performed substantive testing including, among other: the review of documentation of judgements made by management as assisted by its external advisors; review of relevant contracts, permits and regulations and supplemented with inquiries with operating personnel of the Company to gain a better understanding of the regulatory environment; performed procedures to test the determination of fair values; and performed internal consultations with valuation and industry specialist as needed.

- Risk that current or deferred taxes resulting from the acquisition, if any, were not properly reflected in the financial statements.

- We tested the operating effectiveness of controls established by management addressing this risk and reviewed management´s determination of current and deferred taxes. In our testing we involved our tax specialists as necessary.

- Risks that the accounting model used for contracts acquired is incorrect, for example as it relates to the determination of contracts containing leases or derivatives.

- We tested the operating effectiveness of controls established by management addressing this risk and reviewed management´s documentation, challenging critical judgements.

Valuation of Assets held for sale

As described in Note 12 to the consolidated financial statements, in February 2016, the management of the Company approved a plan to market and sell its subsidiary Termoeléctrica de Mexicali, S. de R. L. de C. V. The assets and liabilities, were presented as assets held for sale and liabilities held for sale and its results were presented within discontinued operations. Under International Financial Reporting Standards, an entity shall measure non-current assets classified as held for sale at the lower of its carrying amount and fair value less costs to sell. During the third quarter the Company determined that fair value less costs to sell was less than the carrying amount recognizing an impairment loss of $136.8 million with a deferred tax benefit of $47.8 million.

We addressed the risks that impairment was recorded in the appropriate period and for the correct amount. We tested the operating effectiveness of controls established by management. We also challenged management´s judgements and the estimate of fair value; recalculated the impairment amounts and tax effects; and, reviewed the appropriate presentation and disclosure in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We do not report anything related to the other information.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Omar Esquivel Romero
Mexico City, Mexico
February 21, 2017

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

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	**Notes**	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
Current assets:				
Cash and cash equivalents	4, 24	$ 24,918	$ 40,377	$ 83,637
Short-term investments	24	80	20,068	30,020
Trade and other receivables, net	5, 24	100,886	53,728	66,401
Due from unconsolidated affiliates	6, 24	12,976	27,608	26,601
Finance lease receivables	8, 24	7,155	-	-
Income taxes receivable	25	6,390	16,226	34,297
Natural gas inventories	7	6,083	4,628	9,375
Derivative financial instruments	24	6,913	1,926	4,709
Value added tax receivable		27,600	46,807	30,797
Carbon allowances	20	-	5,385	29,864
Other assets	9	9,289	8,576	9,918
Restricted cash	4	51,363	-	-
Assets held for sale	12	191,287	-	-
Total current assets		444,940	225,329	325,619
Non-current assets:				
Due from unconsolidated affiliates	6, 24	104,352	111,766	146,775
Derivative financial instruments	24	1,127	-	-
Finance lease receivables	8, 24	950,311	14,510	14,621
Deferred income tax assets	25	75,999	78,965	85,758
Investments in joint ventures	10	125,355	440,105	401,538
Carbon allowances	20	-	12,975	229
Other assets	9	4,855	1,938	2,285
Property, plant and equipment, net	14, 28	3,614,085	2,595,840	2,377,739
Intangible assets	15	154,144	-	-
Goodwill	13	1,651,780	25,654	25,654
Total non-current assets		6,682,008	3,281,753	3,054,599
Total Assets		$ 7,126,948	$ 3,507,082	$ 3,380,218

Liabilities and Stockholders' Equity	**Notes**	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
Current liabilities:				
Short-term debt	21, 24	$ 493,571	$ 88,507	$ 195,089
Trade and other payables	16, 24	94,566	43,849	59,575
Due to unconsolidated affiliates	6, 24	260,914	352,650	14,405
Income tax liabilities	25	13,322	14,095	18,022
Derivative financial instruments	24	10,310	-	6,808
Other financial liabilities	18, 24	5,877	6,444	7,223
Provisions	22	930	1,293	1,619
Other taxes payable		27,872	13,881	11,247
Carbon allowances	20	-	5,385	29,864
Other liabilities	19	28,861	17,237	23,698
Liabilities held for sale	12	35,451	-	-
Total current liabilities		971,674	543,341	367,550
Non-current liabilities:				
Long-term debt	23, 24	1,039,804	299,925	350,638
Due to unconsolidated affiliates	6, 24	3,080	38,460	38,460
Deferred income tax liabilities	25	489,607	261,294	232,538
Carbon allowances	20	-	12,611	-
Provisions	22	51,035	34,236	38,250
Derivative financial instruments	24	215,851	133,056	100,449
Employee benefits	17	5,586	4,295	3,045
Total non-current liabilities		1,804,963	783,877	763,380
Total liabilities		2,776,637	1,327,218	1,130,930
Stockholders' equity:				
Common stock	26	963,272	762,949	762,949
Additional paid-in capital	26	2,351,801	973,953	973,953
Accumulated other comprehensive loss		(126,658)	(103,944)	(64,331)
Retained earnings		1,161,896	546,906	576,717
Total equity attributable to owners of the Company		4,350,311	2,179,864	2,249,288
Commitments and contingencies	35, 36			
Events after the reporting period	38			
Total liabilities and equity		$ 7,126,948	$ 3,507,082	$ 3,380,218

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Profit

(In thousands of U. S. Dollars, except per share amounts)

	Notes	Year ended December 31, 2016 (Note 1, 12)	2015 (Note 1, 12)	2014 (Note 1, 12)
Revenues	24, 28	$ 717,894	$ 613,041	$ 738,830
Cost of revenues		(237,789)	(257,226)	(409,635)
Operating, administrative and other expenses	30	(104,754)	(81,857)	(78,658)
Depreciation and amortization	14, 28, 33	(64,384)	(52,470)	(46,728)
Interest income	28, 29	6,269	6,701	3,187
Finance (costs) income	28, 32	(20,836)	(9,859)	1,379
Other gains and (losses), net	31	2,168	(11,426)	4,059
Remeasurement of equity method investment	11	673,071	-	-
Profit before income tax and share of profits of joint ventures		971,639	206,904	212,434
Income tax expense	25, 28	(147,158)	(94,237)	(102,856)
Share of profits of joint ventures, net of income tax	10, 28	42,841	42,319	23,346
Profit for the period from continuing operations		$ 867,322	$ 154,986	$ 132,924
Discontinued operation:				
(Loss) gain for the period from discontinued operations, net of income tax	12	(112,332)	(14,797)	4,010
Profit for the year	28	$ 754,990	$ 140,189	$ 136,934
Earnings per share:				
From continuing and discontinued operations:				
Basic and diluted earnings per share	12, 34	$ 0.61	$ 0.12	$ 0.12
From continuing operations:				
Basic and diluted earnings per share	34	$ 0.70	$ 0.13	$ 0.12

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

		Year ended December 31,		
	Notes	2016	2015	2014
Profit for the year	34	$ 754,990	$ 140,189	$ 136,934
Other comprehensive income (loss):				
Items that will not be reclassified to profit or (loss):				
Actuarial gains (loss) on defined benefits plans	17	1,765	(1,793)	357
Deferred income tax related to components of other comprehensive income		(530)	538	(107)
Total items that will not be reclassified to profit		1,235	(1,255)	250
Items that may be subsequently reclassified to profit or (loss):				
Loss on valuation of financial derivative instruments held for hedging purposes		(17,112)	(6,604)	(1,822)
Deferred income tax on the loss on valuation of financial derivative instruments held for hedging purposes		5,133	1,981	547
Gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		35,308	(5,362)	(19,936)
Deferred income tax on the gain (loss) on valuation for hedging purposes at joint ventures of financial derivate instruments held		(10,592)	1,608	5,981
Exchange differences on translation of foreign operations		(36,686)	(29,981)	(25,078)
Total items that may be subsequently reclassified to profit or loss		(23,949)	(38,358)	(40,308)
Other comprehensive loss for the year		(22,714)	(39,613)	(40,058)
Total comprehensive income for the year		$ 732,276	$ 100,576	$ 96,876

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Notes	Common shares	Additional paid-in capital	Other comprehensive loss	Retained earnings	Total
Balance as of December 31, 2014		$ 762,949	$ 973,953	$ (64,331)	$ 576,717	$ 2,249,288
Profit for the year		-	-	-	140,189	140,189
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(8,377)	-	(8,377)
Actuarial loss on defined benefits plans, net of income tax				(1,255)		(1,255)
Exchange differences on translation of foreign operations		-	-	(29,981)	-	(29,981)
Total comprehensive income for the year		-	-	(39,613)	140,189	100,576
Dividends paid	27	-	-	-	(170,000)	(170,000)
Balance as of December 31, 2015		$ 762,949	$ 973,953	$ (103,944)	$ 546,906	$ 2,179,864
Profit for the year		-	-	-	754,990	754,990
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(11,979)	-	(11,979)
Actuarial gain on defined benefits plans, net income tax				1,235		1,235
Gain on valuation of financial derivatives held for hedging purposes of joint venture, net of income tax		-	-	24,716	-	24,716
Exchange differences on translation of foreign operations		-	-	(36,686)	-	(36,686)
Total comprehensive income for the year		-	-	(22,714)	754,990	732,276
Issuance of share, net	26	200,323	1,377,848	-	-	1,578,171
Dividends paid	27	-	-	-	(140,000)	(140,000)
Balance as of December 31, 2016		$ 963,272	$ 2,351,801	$ (126,658)	$ 1,161,896	$ 4,350,311

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year Ended december 31, 2016	2015	2014
Cash flows from operating activities:				
Profit for the year	28, 34	$ 754,990	$ 140,189	$ 136,934
Adjustments for:				
Income tax expense	25, 28	117,349	100,406	111,283
Share of profit of joint ventures, net of income tax	10, 28	(42,841)	(42,319)	(23,346)
Finance costs (income)	28, 32	21,092	10,103	(1,143)
Interest income	28, 29	(6,294)	(6,743)	(3,299)
(Loss) gain on disposal of property, plant and equipment		(4,233)	3,601	624
Impairment loss (gain) recognized on trade receivables		46	30	(8)
Impairment property plant and equipment		136,880	-	-
Remeasurement of equity method investment		(673,071)	-	-
Gain on sale of equity interest in subsidiary		-	-	(18,824)
Depreciation and amortization	14, 28, 33	66,606	67,682	61,943
Net foreign exchange (gain) loss		(4,652)	(8,548)	9,057
(Gain) loss on valuation of derivative financial instruments		(21,001)	690	4,045
		344,871	265,091	277,266
Movements in working capital:				
Decrease (increase) in trade and other receivables, net		6,175	11,776	(4,020)
(Increase) decrease in natural gas inventories		(1,455)	4,747	(5,539)
Decrease in other assets		18,398	3,615	14,308
(Decrease) increase in trade and other payables		(45,302)	(17,081)	49,393
Increase (decrease) in provisions		16,249	(3,791)	(19,873)
Increase (decrease) in other liabilities		20,348	(33,638)	17,895
Cash generated from operations		359,284	230,719	329,430
Income taxes paid		(118,552)	(62,540)	(166,213)
Net cash provided by operating activities		240,732	168,179	163,217

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

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year Ended december 31, 2016	2015	2014
Cash flows from investing activities:				
Acquisition of subisidiary, net of cash acquired	11	(1,512,248)	-	24,411
Investment in joint ventures	10	(100,477)	-	-
Interest received		3,875	1,047	4
Acquisitions of property, plant and equipment	14	(315,810)	(300,090)	(325,484)
Loans to unconsolidated affiliates		685	(1,301)	(162,823)
Receips of loans to unconsolidated affiliates		8,262	41,596	18,921
Restricted cash		46,849	-	-
Short-term investments		19,988	9,952	177,007
Net cash used in investing activities		(1,848,876)	(248,796)	(267,964)
Cash flows from financing activities:				
Issuance shares in follow-on		1,602,586	-	-
Shares issuance cost		(34,877)	-	-
Interest paid		(35,785)	(20,172)	(18,872)
Proceeds from loans from unconsolidated affiliates	6	1,240,000	339,600	146
Repayment of loans from unconsolidated affiliates	6	(1,369,600)	-	(583)
Payments on bank credit lines		(459,463)	(600,094)	-
Proceeds from bank credit lines		805,000	495,094	278,432
Debt issuance cost		(2,400)	(2,536)	(11,184)
Dividends paid	27	(140,000)	(170,000)	(164,000)
Net cash provided by financing activities		1,605,461	41,892	83,939
Net decrease in cash and cash equivalents		(2,683)	(38,725)	(20,808)
Cash and cash equivalents at the beginning of the year		40,377	83,637	103,880
Cash and cash equivalent from assets held for sale	12	(434)	-	-
Effects of exchange rate changes on cash and cash equivalents		(12,342)	(4,535)	565
Cash and cash equivalents at the end of the year		$ 24,918	$ 40,377	$ 83,637

See accompanying notes to the consolidated financial statements.

1. General information and relevant events

1.1. General information

Infraestructura Energética Nova, S. A. B. 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 (the "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 40.

1.2. Relevant events

1.2.1. Credit agreements

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to $400.0 million with a syndicate group of four banks including, Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Bank of Tokyo Mitsubishi, The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation ("SMBC"). The revolving credit has the following characteristics:

- U.S. Dollar-denominated.
- Twelve month term, with an option to extend up to five years.
- Financing to repay and cancel the previous loans contracted in 2014 with Banco Santander (México), S. A., Institución de Banca Múltiple and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015 the Company entered into an amended agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders, (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 from the previously authorized maximum in the amount of $400.0 million. Please refer to Note 21.

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, N. A. ("BofA"), BBVA Bancomer S. A., Institucion de Banca Múltiple, Grupo Financiero BBVA Bancomer ('BBVA") and Mizuho Bank, LTD ("Mizuho"), joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $1,170.0 million approximately from the previously authorized maximum of $600.0 million.

On December 30, 2016 a portion of this revolving credit was paid in the amount of $ 200.0 million.

1.2.2. Plan to market and sell TDM

In February 2016, the Company´s management approved a plan to market and sell Termoeléctrica de Mexicali, S. de R. L. de C. V. and subsidiaries ("TDM"), a 625-megawatts ("MW") natural gas-fired power plant located in Mexicali, Baja California, México.

As a result of the foregoing events, the assets and liabilities of TDM were presented as assets held for sale and liabilities held for sale, in the Consolidated Statement of Financial Position as of December 31, 2016; the results of these companies are also presented within discontinued operations in the Consolidated Statements of Profit, which were retrospectively adjusted. Please refer to Note 12.

1.2.3. Purchase agreement of remaining interest in GdC from Petroleos Mexicanos

On July 31, 2015, the Company announced an agreement with Petroleos Mexicanos ("Pemex") to purchase Pemex's 50 percent equity interest in Gasoductos de Chihuahua, S. de R. L. de C. V. ("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").

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, Comisión Federal de Competencia Económica ("COFECE") objected to the transaction to purchase Pemex's interest in GdC as proposed. The parties restructured the transaction so that Pemex could proceed in accordance with the COFECE ruling.

GdC aquisition

In July 2016, IEnova announced it had reached an agreement with Pemex Transformación Industrial ("Pemex TRI") to restructure the transaction to purchase Pemex's interest in GdC that was objected by the COFECE in December 2015. This agreement allowed i) Pemex TRI to satisfy the conditions imposed by the former COFECE in connection with its indirect participation in the assets known as Gasoducto San Fernando and LPG Ducto TDF and ii) IEnova to acquire Pemex TRI participation in GdC once such conditions were satisfied.

On September 21, 2016, COFECE authorized IEnova's acquisition of 50 percent of the equity of GdC ("GdC acquisition"), owned by Pemex TRI.

On September 26, 2016, GdC´s acquisition was completed through IEnova Gasoductos Holding, S. de R. L. de C. V., ("IGH") a subsidiary of IEnova; therefore, the Company now holds 100 percent of GdC's shares. The final price of the transaction was $1,077.6 million, net of cash acquired. GdC's joint venture with Pemex TRI remains after the acquisition, as originally contracted, each holding 50 percent of the shares in DEN. Through DEN, IEnova and Pemex TRI will preserve their energy infrastructure joint venture of the construction of the Los Ramones Norte pipeline and potentially develop new projects. Please refer to Note 1.2.4 for financing transaction.

GdC has been included in the Company's Consolidated Financial Statements since the acquisition date (September 26, 2016). Please refer to Note 11.1.

1.2.4. Bridge loan for GdC acquisition

a. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $800.0 million with Sempra Global ("SEG"). The loan has the following characteristics:

- U.S. Dollar-denominated.
- Two-month term.
- Use to finance the acquisition of GdC.

In October 2016, the Company repaid this Bridge Loan.

b. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount $350.0 million with Semco Holdco, S. de R. L. de C. V. ("Semco"). The loan has the following characteristics:

- U.S. Dollar-denominated.
- Two-month term.
- Use to finance the acquisition of GdC.

In October 2016, Semco bought IEnova's shares from the common stock follow-on equity offering ("Global offering"). Semco acquired 83,125,000 shares, at a value per share of $80.0 Mexican Pesos, the total amount of this transaction amounted to approximately $350.0 million, equivalent to the amount of this loan, therefore Semco relieved IEnova from the payment obligation of the loan as settlement for shares.

1.2.5. Follow-on equity offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of expenses and the corresponding taxes, was $29,941.0 million Mexican Pesos (approximately $1.57 billion of US Dollars), the proceeds were used to repay the bridge loan to its affiliate Sempra Global, used to purchase the remaining 50 percent of GdC from Pemex TRI, to fund a portion of the acquisition of the Ventika wind-farm and to fund capital expenditures and general corporate purposes. Please refer to Note 26.

As a result of the Global Offering, the Company raised $30,400 million Mexican Pesos, and the issuance costs amounted to $459,313.3 Mexican Pesos. Please refer to Note 26.

The Company in order to complete the transaction mentioned in Note 1.2.3., entered into four forward exchange rate contracts with a maturity date in October 2016. The effect of these forwards was $3.4 million, and was recognized in the Consolidated Statement of Profit within other gains and losses.

1.2.6. Purchase agreement of wind farm Ventika

On September 2, 2016, IEnova agreed to acquire Fisterra Energy Netherlands III, B. V., Fisterra Energy Netherlands, IV B. V., Fisterra Energy Mexico III, S. de R. L. de C. V., Fisterra Energy Mexico IV, S. de R. L. de C. V., Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika"), a 252 MW wind generation facility, located in the state of Nuevo Leon, Mexico. Ventika was jointly developed by Fisterra Energy and Cementos Mexicanos, S. A. de C. V. The construction was completed in December 2015 and commercial operations started in April 2016.

This transaction was approved in an Extraordinary Shareholders' Meeting on October 7, 2016.

In December 2016, the COFECE authorized the acquisition of 100 percent of the equity interests in Ventika. The transaction was completed on December 14, 2016 through Controladora Sierra Juárez, S. de R. L. de C. V. ("CSJ") a subsidiary of IEnova. The final price of the transaction was $434.7 million, plus the assumption of outstanding debt of $485.3 million.

The loans fully mature in March 2032, and bear interest equal to a fixed base rate or London Interbank Offered Rate ("LIBOR") plus a spread of 3.03 percent to 3.93 percent, which varies over the term of the loans. To moderate exposure to interest rate and associated cash flow variability, Ventika entered into floating-to-fixed interest rate swaps to have almost 92 percent of the full amount of the loans fixed.

Ventika has been included in the Consolidated Financial Statements since the acquisition date (December 14, 2016). Please refer to Note 11.2.

1.2.7. 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 2016 the term was renegotiated until December 2017.
- 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.

On August 1st, 2016 the Company repaid $120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the outstanding balance of $99.5 million was paid in full by the Company.

c. On December 27, 2016, IEnova entered into two related parties revolving credit facilities for $20.0 million with Peruvian Opportunity Company S. A. C. ("POC") and $70.0 million with ISLA. The credit facilities have the following characteristics:

- U.S. Dollar-denominated.
- Twelve-month term, with an option to be extended up to four years.
- Financing to cover working capital needs and general corporate purposes.

1.2.8. Projects under development

a. Los Ramones

i. Los Ramones I

In January 2013, 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 (Please refer to Note 10). 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

On March 12, 2014, GdC, entered into a partnership agreement with TAG Pipelines, S. de R. L. de C. V. ("TAG Pipelines", an affiliate of Mex Gas International, Pemex Gas y Petroquímica Básica ("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. The pipeline capacity is 1.4 billion of CFPD.

In February 2016, Los Ramones Norte project began commercial operations.

Incorporation of new Partners in TAG Norte Holding, S. de R. L. de C. V. (Joint Venture)

On March 26, 2015, 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-percent of TAG Norte Holding, S. de R. L. de C. V. ("TAG Norte Holding"). GdC, a subsidiary of IEnova, holds a 50 percent interest in TAG Norte Holding which constructed the project known as Los Ramones Norte.

b. Energía Sierra Juarez

i. Sale of 50 percent of the ESJ project

On April 18, 2014, the Company, through its subsidiary CSJ, entered into a purchase and sale agreement with InterGen International N. V. ("InterGen") with respect to the 50 percent 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. Please refer to Note 10.2 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. Please refer to Note 10.2a 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 Santander for an amount of up to $455.0 million Pesos (approximately $35.0 million U.S. Dollars historical) to finance the value added tax ("VAT") of the ESJ project. Please refer to Note 10.2c for more details.

iv. Beginning of commercial operation of the ESJ 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´s 50 percent joint venture with InterGen N. V. and has a 155 MW capacity.

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), has 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), has an approximate length of 330 Km, and 30-inch pipeline with 510 Mmcfd of transportation capacity.

On August 18, 2014, CFE granted a compliance certification for the Sásabe – Puerto Libertad segment construction. The first 220 Km, of the first segment were put into operation in the fourth quarter of 2014. The second 285 Km of the first segment (Puerto Libertad – Guaymas), were put into operation in the third quarter of 2015. The second segment (Guaymas – El Oro) is estimated to be put into operation in the second quarter of 2017. 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 percent 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 - 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 $108.0 million and the project is expected to begin operations in the first quarter of 2017. The contract maturity with CFE will be for 25 years.

f. *Liquefaction project*

During March 2015, the Company, together with its affiliate IEnova Marketing, S. de R. L. de C.V. ("IEnova Marketing" formerly, IEnova LNG, S. de R. L. de C. V., announced the execution of a "Memorandum of Understanding" ("Memorandum") with a subsidiary of Pemex, for collaboration in the development of a natural gas liquefaction project at Energía Costa Azul, S. de R. L. de C. V. ("ECA"). ECA is a subsidiary of IEnova and is a liquefied natural gas ("LNG") receipt, storage and regasification facility, located in Ensenada, Baja California, Mexico. The Memorandum defines partner participation in the liquefaction project, including the development, structuring and the terms under which Pemex may become a client and/or investor.

g. *Ramal Empalme pipeline project*

In May 2016, IEnova entered into a natural gas transportation service agreement with CFE for a 21 year term, denominated in U.S. Dollars, for 100 percent of the transportation capacity of the Ramal Empalme pipeline, equal to 226 mmcfdy of natural gas. The Company will be responsible for the development, construction and operation of the 20 Km pipeline which is expected to begin operations in the first half of 2017.

h. *Marine pipeline*

In June 2016, Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG"), the joint venture formed between IEnova and TransCanada Corporation ("TransCanada"), whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest, resulted the winner of a bidding process and entered into a 25-year natural gas transportation service agreement with the CFE, in connection with the bid issued by CFE for the South Texas – Tuxpan pipeline. IMG shall be responsible for the development, construction, and operation of the 42-inch pipeline, with a capacity of 2.6 billion CFPD and a length of approximately 800 Km. The project will require an investment of approximately $2.1 billion and is expected to begin operations in the last quarter of 2018. Please refer Note 10.3.

i. *La Rumorosa Solar Project and Tepezalá II Solar Project*

On September 28, 2016, the Company was declared winner of two solar projects, bided by Centro Nacional de Control de Energía ("CENACE"), La Rumorosa Solar Complex ("La Rumorosa") and Tepezalá II Solar Complex ("Tepezalá II") with an approximate capacity of 41 MW, located in Baja California, Mexico and 100 MW capacity, located in Aguascalientes, Mexico, respectively. The Tepezalá II project will be developed and constructed in collaboration with Trina Solar who will have a 10 percent stake in this project.

The Company, through its subsidiaries will be responsible for the development, construction, operation and maintenance of these projects, including the permits, rights, financing and land acquisition. The estimated investment for these projects is $150.0 million and the beginning of commercial operations is expected to occur in the second quarter of 2019.

1.2.9. 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 Santander. As of December 31, 2014, IEnova had $145.0 million of outstanding borrowings supported by the facility, and available unused balance credit 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 SMBC. As of December 31, 2014, IEnova had $51.0 million of outstanding borrowings supported by the facility, and available unused balance on the credit line was $49.0 million.

1.2.10. Others matters

a. Payment of financial derivatives held for hedging purposes

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. As of December 31, 2014, there was one remaining interest rate swap agreement under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5 percent. The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a payment in the amount of $29.8 million and as a result, such derivative was cancelled.

b. Energy Reforms

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 Federal Official Gazette. 2015 and 2016 witnessed the implementation of the Reform since particular regulation (General Administrative Procedures) regarding natural gas, electricity, renewables and liquids were issued by the Energy Regulatory Commission. Centro Nacional de Control del Gas Natural ("CENAGAS") and Centro Nacional de Control de Energía ("CENACE") started functioning as the Independent System Operators of the natural gas and national electricity systems (Sistrangas and National Electrical System), and Pemex and Comisión Federal de Electricidad ("CFE") had important corporate restructures.

1.3. Activities

The Company operates in the energy sector. The Company is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova (Please refer to Note 28).

The Gas segment develops, owns and operates, or holds interests in, natural gas, liquefied petroleum gas ("LPG") and ethane pipelines, storage facilities for LNG and LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo León and Jalisco, Mexico. It also owns and operates a LNG terminal in Baja California, Mexico 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 holds an interest in a renewable energy project in a joint venture in Baja California, Mexico, using wind resources to serve a costumer in the U. S. (Please refer to Note 1.2.8.)

According to the relevant event mentioned in Note 1.2.3. and 1.2.6., the Company has the following new activities:

i) Operation of five natural gas compression stations, one propane system in the states of Chihuahua, Nuevo León and Tamaulipas; and one storage station in the state of Jalisco, Mexico.

ii) A plant in Zapotlanejo, Jalisco, Mexico where the Company renders transportation and storage of LPG services.

iii) Transportation of ethane gas, in the states of Tabasco, Chiapas and Veracruz, Mexico.

iv) Operation of a wind farm with a capacity of 252 MW, located in the state of Nuevo León, Mexico.

The Company obtained the corresponding authorization from the Comisión Reguladora de Energía ("CRE") in order to perform these activities.

Seasonality of operations. Customer demand in both Gas and Power segments experience seasonal fluctuations. For the Gas segment, the demand for natural gas service is higher in colder months. In the case of the Power segment, the demand for power distribution service is higher during months with hot weather.

1.3.1. Gas segment

The Company's subsidiaries included in this reportable segment are:

a. Ecogas 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 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, 2016, 2015 and 2014, ECO had over 119,000, 113,000 and 106,000 customers, respectively.

b. PE International Canada, S. de R. L. de C. V. ("PEI") is a subholding company of the group.

c. Servicios DGN de Chihuahua, S. A. de C. V. ("SDGN") provides administrative, and operational services to other subsidiaries of the group.

d. Gasoducto Rosarito, S. de R. L. de C. V. ("GRO") render services of 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 one 30,000 horse power ("HP") compression 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 Baja California at the interconnection with the Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("TGN", a subsidiary company) pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones 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 U.S. 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 designed 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 affiliate 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") 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.

   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. ("EPEMM"). It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

   In 2001, SCM entered into an agreement with 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 between CM and PGPB.

In 2014, SCM was merged with IEnova Gasoductos México subsisting this last company.

g. GAP (formerly El Paso Gas Transmission de México, S. de R. L. de C. V.), a 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 EPEMM, a related party until April 2010. The pipeline starts at the border of Arizona, U. S., and extends to the power plant called "Naco-Nogales", which is owned by Power and Energy Naco Nogales, S. A. de C. V., located in Agua Prieta, Sonora, México.

   Currently, GAP is also in charge of the construction and operation of the Sonora Pipeline, Ojinaga – El Encino pipeline and the San Isidro – Samalayuca. (Please refer to Note 1.2.8. subsection c, d, and e).

h. IGH 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 percent equity interest in GdC, a jointly controlled Company with PGPB.

   On September 26, 2016, IGH acquired the remaining 50 percent of interest in GdC, therefore, it now holds 100-percent of GdC's shares.

i. IEnova, S. de R. L. de C. V. is engaged in providing administrative and operating services to other subsidiaries in the group.

   During 2015, this entity has been liquidated.

j. ECA, owns and operates a 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 Marketing for which SLNGI is committed to lease 50 percent of the total storage capacity of the LNG Terminal. The agreement commenced in May 2008 after the LNG Terminal was placed in service. In April 2009, the shipper assigned the remaining contracted storage capacity to other independent third parties.

k. IEnova Marketing provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova Marketing began operating jointly with ECA. Up to that date, the activities of IEnova Marketing were primarily focused on obtaining necessary permits.

In November 2009, IEnova Marketing entered into an agreement with SLNGI, whereby SLNGI agreed to deliver and sell LNG cargoes to IEnova Marketing from startup date of the LNG Terminal. Accordingly, IEnova Marketing entered into transportation and storage capacity service agreements to commercialize the LNG.

Thereafter, on January 1, 2013, SLNGI and IEnova Marketing entered into 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 Marketing will take LNG in order to meet its purchase commitments.

As of September 30, 2014, the agreement between IEnova Marketing and JP Morgan Ventures Energy Corp ("JPM") concluded and a new agreement for gas rendered. Please refer to Note 24.11.4.

l. GdC is engaged in providing natural gas and LPG transportation services through Gasoductos de Tamaulipas, S de R. L. de C. V. ("GdT"), Gasoducto del Noroeste, S. de R. L. de C.V. ("GDN") and TDF, S. de R. L. de C.V. ("TDF"), respectively, it also stores gas for the supply of LPG, though Transportadora del Norte SH, S. de R. L. de C. V. ("TDN", TDF's holding company). These activities are regulated by the CRE. GdC is also engaged as well in the ethane gas transportation service through Gasoductos del Sureste, S. de R. L. de C. V. ("GDS").

GdC has to follow the rulings authorized by the CRE. Those contain among other things, general service provision conditions for the service supply, tariff limits, the approved maximum revenues and the route followed by the gas pipeline proposed by the companies. The construction program and established investments in each permit must have been developed by GdC. In addition, the rulings require that a review of the maximum revenue be performed every five years to make any adjustments required regarding revenue and the related tariffs.

On July 15, 1997, the CRE issued a ruling granting GdC permit to transport natural gas for a period of 30 years. The permit may be renewed for additional periods of 15 years; also the ruling authorized GdC to construct the Samalayuca Pipeline, which has been operating since 1997. In addition, on October 15, 2001, the CRE issued a ruling authorizing GdC to construct the compression station Gloria a Dios, which was completed and commenced operations during 2001.

On September 12, 2002, the CRE issued a ruling granting GdT permit to transport natural gas for a 30 years period. The permit may be renewed for additional periods of 15 years; also the ruling authorized GdT to construct the San Fernando Pipeline, which commenced operations during 2003.

On October 3, 2006, the CRE issued a ruling granting TDF, the operating subsidiary of TDN permit to transport LPG for a 30 year period. The permit may be renewed for additional periods of 15 years.

On February 13, 2012, the CRE issued a ruling granting TDF, permit to store LPG through a LPG supply plant permit for a 30 year period. The permit may be renewed for additional periods of 15 years.

On April 18 2013, the CRE issued a ruling granting TAG Pipelines, permit to transport natural gas, on May 23, 2013, transferred from TAG to GDN, the ruling for a 30 years period beginning on the commercial operation date.

1.3.2. Power segment

The Company's subsidiaries included in this reportable segment are:

a. 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.

   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 the construction on the 155-MW first phase of the wind generation project, which is fully contracted by SDG&E and started operations in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the ESJ wind project entered into an 18-year, $240.0 million loan to finance the construction project and withdrew $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 Mexican Peso-denominated credit facility for up to $35.0 million U.S. Dollar equivalent to fund the VAT of the project. (Please refer to Note 10.2.)

c. Ventika's operation of a wind farm with a capacity of 252 MW.

1.3.3. Corporate segment

The Corporate Segment holds interests in pipeline, transportation, distribution, regasification, natural gas sale, and power generation operations in México.

a. 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.

b. Fundación IEnova, A. C., was established as a non-profit organization.

2. Significant accounting policies

2.1. *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2. *Basis of preparation*

The Consolidated Financial Statements have been prepared on the historical cost basis, except for certain financial instruments, related to business combination that are measured at revalued amounts of fair values at the end of reporting period, as explained in the accounting policies below. (Please refer to Note 11).

a. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b. Fair value

Fair value ("FV") is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2.3. Consolidation of Financial Statements

2.3.1 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 the accounting policies.

All intercompany transactions, balances, equity, income and expenses are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the years ended December 31, 2016 is as follows.

Company	**Ownership percentage 2016**
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.	100.00
Sempra Compresión México, S. de R. L. de C. V. (Merged in 2014 with IEnova Gasoductos México)	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V.	100.00
IEnova Gasoductos Holding, S. de R. L. de C. V.	100.00
IEnova, S. de R. L. de C. V.	100.00
Energía Costa Azul, S. de R. L. de C. V. and Subsidiary	100.00
IEnova Marketing, S. de R. L. de C. V. (formerly IEnova LNG, S. de R. L. de C. V.)	100.00
Ductos e Infraestructura Marina, S. de R. L. de C. V.	100.00
IEnova Gas, S. de R. L. de C. V.	100.00

Company	Ownership percentage 2016
Gasoductos de Chihuahua, S. de R. L. de C. V.	
Gasoductos de Tamaulipas, S. de R. L. de C. V.	100.00
Gasoductos del Noroeste, S. de R. L. de C. V.	100.00
Transportadora del Norte SH, S. de R. L. de C. V.	100.00
TDF, S. de R. L. de C. V.	100.00
Ductos y Energéticos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos Servicios Subholding, S. de R. L. de C. V.	100.00
Gasoductos Ingeniería, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos y de Administración, S. de R. L. de C. V.	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.	100.00
Fisterra Energy Netherlands III B.V.	100.00
Fisterra Energy Netherlands IV B.V.	100.00
Fisterra Energy México III, S. de R. L. de C. V.	100.00
Fisterra Energy México IV, S. de R. L. de C. V.	100.00
Ventika, S.A.P.I. de C. V.	100.00
Ventika II, S.A.P.I. de C. V.	100.00
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 10.2, on July 16, 2014 CSJ sold 50 percent 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.

As described in Note 10.4. On September 26, 2016, a joint venture partner contributed cash representing 50 percent of the equity interest in DEN, therefore, beginning on that date the investment is recorded using the equity method.

2.4. Classification of costs and expenses

The costs and expenses are presented according to their function because this is the practice of the industry in which the Company operates.

2.5. Cash and cash equivalents

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months as of their acquisition date, and are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the Consolidated Statements of Profit.

2.6. Restricted cash

Restricted cash comprises the amounts of cash of escrows used by the Company to make payments of certain operating costs, which are guaranteed until the completion of the projects. It also comprises the restricted cash under the project financing structure.

2.7. Short-term investments

Short-term investments consist mainly in money market funds, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks and are maintained for purposes other than operation.

2.8. Natural gas inventories

Liquefied natural gas inventory is recorded at the lower of cost or net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to sell.

2.9. Leasing

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 obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance 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 (Please refer to Note 2.18). 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 in the year in which the investment is acquired.

The requirements of IAS 39, *Financial instruments: recognition and measurement*, are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit (as a reclassification adjustment) when the equity method is discontinued.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Company reduces its ownership interest in a joint venture but the Company continues to use the equity method, the Company reclassifies to profit the proportion of the gain or loss that had previously been recognized in OCI regarding that reduction in ownership interest if that gain or loss would be reclassified to profit on the disposal of the related assets or liabilities.

When the Company conducts transactions with joint ventures, non- realized profit and losses are eliminated at the Company's ownership percentage in the joint venture.

2.11. Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes and IAS 19 Employee Benefits, respectively;*

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share based payments*. At the acquisition date the Company does not have share-based payments associated with acquired businesses; 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 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.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit. Amounts arising from interests in the acquiree prior to the acquisition date, that have previously been recognized in other comprehensive income are reclassified to profit where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.12. Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, 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. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit on disposal.

2.13. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the Consolidated Statements of Financial Position date. The CAs' cash inflows and outflows are classified as an operating activity in the Consolidated Statements of Cash Flows. (Please refer Note 20).

2.14. Property, plant and equipment

Property, plant and equipment are presented in the Consolidated Statements of Financial Position and recorded at acquisition cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Acquisition costs include labor, material costs and construction service agreements.

The Company recognizes decommissioning liabilities for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made.

Property, plant and equipment include major expenditures for improvements and replacements parts, which extend useful lives or increase capacity. Routine maintenance costs are expensed as incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. The buildings, equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write-off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit.

2.15. Intangible assets

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.16. Impairment of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss related has been recognized related to TDM in the Consolidated Statements of Profit.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, a gain or loss could arise once an actual sale is completed.

2.17. Non-current assets classified as held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Company generally borrows funds and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period. For a relationship designated as cash flow hedging, none of the effects of the derivative are included in capitalized interest.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit in the period in which they are incurred.

2.19. Employee benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting year. The remeasurements company 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 Consolidated Statement of Financial Position charged to the credit that is recognized in the Consolidated Statements of Profit 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 year.

Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the Consolidated Statement of Profit and Other Comprehensive Income.

As result of the 2014 Income Tax Law, as of December 31, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

2.20. Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate 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.

2.21. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit.

2.21.1. Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.21.2. Fair value

Fair value is defined in subparagraph b of Note 2.2.

2.22. Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' “FVTPL”, investments preserved at maturity financial assets 'available for sale' (“AFS”) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at initial recognition. All purchases or sales of financial assets made routinely identified and removed based on the trade date. Purchases or sales regularly are those purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or custom in that market.

2.22.1. Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating the interest income or interest cost during the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition.

2.22.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the cost of revenues and in other gains and losses line items in the Consolidated Statements of Profit. Fair value is determined in the manner described in Note 2.2b.

2.22.3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. The Company does not hold any held-to-maturity financial assets.

2.22.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and amounts due from unconsolidated affiliates) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.22.5. Impairment of financial assets

Financial assets are subject to impairment tests at the end of each reporting period. It is considered that financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Non-payment of interest or principal;
- It is probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except for accounts receivable where the carrying amount is reduced through an account of allowance for doubtful accounts. When a receivable is uncollectible, it is removed from the estimate. Subsequent recoveries of amounts previously written off become claims against the estimate. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss has been recognized related to TDM in the Consolidated Statements of Profit.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, a gain or loss could arise once an actual sale is completed.

2.22.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

If a financial asset is derecognized, the difference between the book value of the asset and the compensation received is recognized in the Consolidated Statements of Profit.

2.23. Financial liabilities and equity instruments

2.23.1. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.23.2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.23.3. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.23.3.1. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired mainly for the purpose of repurchasing it in the near term; or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of making profits in the short term; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial liabilities as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the Consolidated Statements of Profit. Fair value is determined as described in Note 24.

2.23.3.2. Other financial liabilities

Other financial liabilities (including borrowings, due to unconsolidated affiliates, trade payables and customers deposits) are subsequently measured at amortized cost using the effective interest method.

2.23.3.3. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit.

2.24. Derivative financial instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in Note 24.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

2.24.1. Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.24.2. Own use exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

2.25. Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivative with respect to foreign currency risk, either as fair value hedges, cash flow hedges, or hedges of a net investment in a transaction foreign. The hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

For its hedging instruments, the Company documents the relationship between the hedging instrument and the hedged item at the inception of the hedge relationship, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.25.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit in the years when the hedged item is recognized in profit, in the same line of the Consolidated Statements of Profit as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit.

2.25.2. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.26. Taxation

Income Tax (IT or "ISR by the initials in Spanish") expense represents the sum of the current and deferred tax.

2.26.1. Current tax

Current income tax is recognized in the results of the year in which is incurred.

2.26.2. Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Company reviewed the Company's investment property portfolios and concluded that none of the Company's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Company has not recognized any deferred taxes on changes in fair value of the investment properties as the Company is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax on assets

The tax on assets ("IMPAC" for its name in Spanish) expected to be recoverable is recorded as a tax credit and is presented in the balance sheet in the deferred taxes line item.

2.27. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates; VAT.

2.27.1. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rights of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and,
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

The following revenue streams related to the sale of goods are recognized in accordance with the previous accounting policy as disclosed in more detail below:

- Sales of natural gas and the related costs are recognized upon the transfer of title, which coincides with the physical delivery of natural gas to customers; and,
- Power generation revenues are recognized when generated power is delivered.

2.27.2. Rendering of services

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.

2.27.3. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset´s net carrying amount on initial recognition.

2.27.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.2.

2.28. Foreign currencies

The Company's functional currency is the U.S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and 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 on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U.S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period.

Profit amounts are translated at the rate of the transaction date, unless there are significant currency fluctuations during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other items of comprehensive income and accumulated in equity.

On the disposal of an operation with a Mexican Peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies of the Company, management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Financial Statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the change affects both the current period and to subsequent periods.

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

Management has determined that certain arrangements should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

3.1.2. Regulatory accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2016, 2015 and 2014, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, *Regulatory deferral accounts* on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

3.1.3. Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

3.1.4. Own use exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts which are not used for operational purposes as derivative instruments. If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement. Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

3.1.5. Determining whether an arrangement contains a lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

3.1.6. Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's Consolidated Statements of Financial Position.

3.2.1. Estimated useful lives of property, plant and equipment

As described in Note 2.14., the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Please refer to Note 14.1. for useful lives of property, plant and equipment.

3.2.2. Impairment of long-lived assets (goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

3.2.3. Asset decommissioning obligation

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the Consolidated Statements of Financial Position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

3.2.4. Valuation of financial instruments (fair value measurement)

As described in Note 24, the Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Please refer to Note 24 for detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3.2.5. Allowance for doubtful accounts

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

3.2.6. Recoverability of deferred tax assets

As mentioned in Note 25, the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

3.2.7. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 17, the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

3.2.8. Key sources of estimation uncertainty for GdC

Selected Valuation Methodology.

GdC is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

3.2.9. Key sources of estimation uncertainty for Ventika

Selected Valuation Methodology.

Based on the nature of the power facility and generally accepted industry practice, we relied on the Income Approach, specifically the Discounted Cash Flow (“DCF”) method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive our fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to our fair value estimate derived utilizing the Income Approach. It is noted that our derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

4. Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and banks and investments in instruments in the money market funds, net of bank overdrafts. Cash and cash equivalents at end of year as shown in the cash flow statement can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	12/31/16	12/31/15	12/31/14
Cash and bank balances	$ 24,918	$ 32,177	$ 42,844
Short term investments classified as cash equivalents	-	8,200	40,793
	$ 24,918	$ 40,377	$ 83,637

As of December 31, 2016, the Company maintained $51,363 restricted cash as a current asset to make payments of certain operating costs for the execution of projects.

5. Trade and other receivables, net

	12/31/16	12/31/15	12/31/14
Trade receivables	$ 90,523	$ 32,895	$ 47,340
Allowance for doubtful accounts (a)	(101)	(147)	(194)
	90,422	32,748	47,146
Other receivables	10,464	20,980	19,255
	$ 100,886	$ 53,728	$ 66,401

(a) For the Gas segment, ECO, has recognized an allowance for doubtful accounts of 80-percent against all receivables outstanding between 180 and 269 days and 100-percent against all receivables outstanding over 270 days, based on historical experience. Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting year for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

5.1. Age of receivables that are past due but not impaired

	12/31/16	12/31/15	12/31/14
31-120 days	$ 35	$ 12	$ 12
121-180 days	7	5	7
181-270 days	3	2	4
Total	$ 45	$ 19	$ 23
Average age (days)	30	29	36

5.2. *Movement in the allowance for doubtful accounts*

	12/31/16	12/31/15	12/31/14
Balance as of beginning of the year	$ (147)	$ (194)	$ (202)
Impairment losses recognized on receivables	(46)	(30)	(78)
Amounts written off during the year as uncollectible	65	48	63
Foreign exchange translation gains	27	29	23
Balance as of end of the year	$ (101)	$ (147)	$ (194)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. See Note 24.9. for more details of the Company's credit risk management and concentration of credit risk assessment.

5.3. *Age of impaired trade receivables*

	12/31/16	12/31/15	12/31/14
181-270 days	$ (10)	$ (9)	$ (15)
Over 270 days	(91)	(138)	(179)
Total	$ (101)	$ (147)	$ (194)

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, except for those transactions between continued and discontinued operations.

Transactions between continued and discontinued operations are eliminated in consolidation. Any profit made from sales to external parties by the discontinued operations are presented outside continuing operations. Accordingly, the Consolidated Statements of Profit present revenues from continuing operations as follows:

	Revenues / Cost of revenues Year ended		
	12/31/16	12/31/15	12/31/14
Effects of continuing operation with GRO and IEnova Marketing	$ 61,382	$ 84,838	$ 140,697

6.1. *Trading transactions*

During the years ended December 31, 2016, 2015 and 2014, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues		
		Year ended	
	12/31/16	12/31/15	12/31/14
Sempra LNG International Holdings, LLC ("SLNGIH")	$ 101,998	51,683	-
Discontinued operation –SGEN	101,130	143,073	222,471
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	2,026	1,676	-
Sempra International, LLC ("Sempra International")	1,746	1,711	1,739
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	890	98	-
Discontinued operation – SESJ	353	428	-
ESJ	94	-	-
Discontinued operation – Sempra Gas & Power Marketing, LLC ("SG&PM")	62	-	-
Southern California Gas Company ("SoCalGas")	12	-	9
Sempra LNG International, LLC ("SLNGI")	-	49,138	90,871

	Cost of revenue, administrative and other expenses		
		Year ended	
	12/31/16	12/31/15	12/31/14
SLNGI	$ 178,145	$ 190,519	$ 335,025
Discontinued operations – SGEN	22,152	27,634	21,315
Sempra International	8,301	5,822	7,311
Sempra U.S. Gas & Power, LLC ("USGP")	6,930	6,709	7,106
SGEN	3,183	4,380	10,387
SG&PM	3,102	-	-
SoCal Gas	1,450	1,031	1,074
Discontinued operation – SG&PM	1,022	-	-
Sempra Midstream, Inc. ("Sempra Midstream")	688	746	448
Sempra Services Company, S. de R. L. de C. V. ("Sempra Services Company")*	-	128	985
Sempra Servicios México, S. de R. L. de C. V. ("Sempra Servicios México") *		-	517

* On December 15, 2015, these companies were liquidated.

	Interest income		
	Year ended		
	12/31/16	12/31/15	12/31/14
DEN	$ 4,082	$ 4,638	$ 1,828
ESJ	1,122	1,450	826
Discontinued operations - SGEN	24	11	-
Sempra Servicios México *	-	2	-
Sempra Services Company *	-	-	3

	Finance costs		
	Year ended		
	12/31/16	12/31/15	12/31/14
ISLA	$ 1,618	$ 1,455	$ -
Sempra Oil Trading Suisse (“SOT Suisse”)	1,363	1,448	1,480
SEH	1,236	47	-
SEG	831	-	-
ISL	534	485	-
Semco	364	-	-
DEN	46	-	-
POC	4	-	-
SGEN	-	-	4

* On December 2015, these companies were liquidated.

The following balances were outstanding at the end of the reporting period:

	Amounts due from unconsolidated affiliates		
	As of		
	12/31/16	12/31/15	12/31/14
SLNGIH	$ 6,456	$ 9,685	$ -
DEN	5,754	-	-
ESJ	539	51	690
SESJ	174	138	626
SLNGEL	53	668	-
SGEN *	-	17,066	23,949
Sempra International	-	-	1,336
	$ 12,976	$ 27,608	$ 26,601

* As of December 31, 2016, the amount was reclassified to assets held for sale.

	Amounts due to unconsolidated affiliates		
	As of		
	12/31/16	12/31/15	12/31/14
ISLA (i)	$ 160,091	$ 90,000	$ -
SOT Suisse (iv)	38,460	-	-
ISL (i)	30,025	30,000	-
POC (ii)	20,004	-	-
SLNGI	11,135	12,220	14,228
Sempra International	582	470	-
SG&PM	491	-	-
SoCalGas	120	-	77
Sempra Midstream	6	-	-
SEH (iii)	-	219,600	-
SGEN	-	360	9
Sempra Services Company	-	-	85
Sempra Servicios México	-	-	6
	$ 260,914	$ 352,650	$ 14,405

(i) 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 a nine month terms, with an option to be extended for up to four years. Interest is payable on a quarterly basis at 1.98 percent of outstanding balances. In December 2016 and 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, 2017. The interest rate applicable shall be computed each calendar quarter at the rate of 1.75 percent per annum.

On December 27, 2016, IEnova entered into a $70.0 million U.S. Dollar-denominated affiliate revolving credit facility with ISLA, to finance working capital and for general corporate purposes. The credit is a twelve month term, with an option to extend for up to four years. Interest of the outstanding balance is payable on a quarterly basis at rate of 1.75 percent per annum.

(ii) On December 27, 2016, IEnova entered into a $20.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit is for twelve month term, with an option to extend up to four years. Interest of the outstanding balance is payable on a quarterly basis at a rate of 1.75 percent per annum.

(iii) 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 percent of outstanding balances. On August 1, 2016, the Company paid $120.5 million, which includes the corresponding interest (Please refer to Note 18). In October 2016, with the proceeds from the Global Offering, the outstanding balance of $99.5 million was paid in full by the Company.

On September 26, 2016, IEnova entered into a $800.0 million of U.S. Dollar-denominated loan with SEG, to finance GdC's acquisition. The agreement is for two months term. Interest is payable on a monthly basis at LIBOR plus 110 basis point of outstanding balances. In October 2016, with the proceeds from the Global Offering, the Company repaid this loan including the corresponding interests.

On September 26, 2016, IEnova entered into a $350.0 million of loan with Semco, to finance GdC's acquisition. The agreement was for two month term. Interest was payable on a monthly basis at LIBOR plus 110 basis point of outstanding balances. (Please refer to Note 18).

(iv) During 2016, the Company paid interest in the amount of $1.3 million, $1.4 million and $1.4 million respectively. The loan mature in March 2017 and bear variable interest based on U. S. Treasury mid-term applicable federal rate plus 200 basis points (“bps”) (an average annual rate of 3.58 percent, 3.64 percent and 3.66 percent in 2016, 2015 and 2014, respectively).

Transactions with unconsolidated affiliates during 2016, 2015 and 2014 have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2016, 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 $8.3 million, $5.9 million and $8.0 million for the years ended December 31, 2016, 2015 and 2014, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

6.2. Loans to unconsolidated affiliates

		As of	
	12/31/16	**12/31/15**	**12/31/14**
DEN	$ 90,045	$ 85,963	$ 123,867
ESJ	14,307	25,142	22,693
SGEN *	-	661	115
Sempra Servicios México	-	-	100
	$ 104,352	$ 111,766	$ 146,775

* As of December 31, 2016, the amount was reclassified to assets held for sale.

6.3. Loans from unconsolidated affiliates

		As of	
	12/31/16	**12/31/15**	**12/31/14**
DEN	$ 3,080	$ -	$ -
SOT Suisse *	-	38,460	38,460
	$ 3,080	$ 38,460	$ 38,460

* This amount was reclassified in 2016 to current liabilities.

6.4. Compensation of key management personnel

Total compensation paid to key management personal was $5.0 million, $8.8 million and $6.5 million, for the years ended December 31, 2016, 2015 and 2014, respectively.

There are no loans granted to the Company’s key management personnel.

7. Natural gas inventories

		As of	
	12/31/16	**12/31/15**	**12/31/14**
Liquefied natural gas	$ 6,083	$ 4,628	$ 9,375

The cost of inventories recognized within cost of revenues was $164,405, $190,172 and $327,110 for the years ended December 31, 2016, 2015 and 2014, respectively.

The cost of revenues recognized as expense was $0.0 million, $0.0 million and $1.0 million for years ended December 31, 2016, 2015 and 2014, respectively, due to write-downs of inventory to net realizable value. Write-downs have been reversed as a result of increased sales prices in certain markets in all periods presented in the Consolidated Financial Statements.

8. Finance leases

8.1. Finance lease receivable – Natural Gas Compression Plant

	12/31/16	As of 12/31/15	12/31/14
Current finance lease receivables	$ 219	$ 156	$ 111
Non-current finance lease receivables	14,135	14,354	14,510
	$ 14,354	$ 14,510	$ 14,621

Leasing arrangements.

The Company entered into a finance lease arrangement for one of its compression stations. The lease is denominated in U.S. Dollars. The term of the finance lease is 25 years.

8.1.1. Amounts receivable under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	12/31/16	As of 12/31/15	12/31/14	12/31/16	As of 12/31/15	12/31/14
Not later than one year	$ 5,136	$ 5,137	$ 5,136	$ 219	$ 156	$ 111
Later than one year and not later than five years	22,458	22,458	22,458	3,403	2,422	1,116
More than five years	24,395	29,531	34,667	10,732	11,932	13,394
	51,989	57,126	62,261	14,354	14,510	14,621
Less: unearned finance income	(37,635)	(42,616)	(47,640)	n/a	n/a	n/a
Present value of minimum lease payments receivable	14,354	14,510	14,621	14,354	14,510	14,621
	$ 14,354	$ 14,510	$ 14,621	$ 14,354	$ 14,510	$ 14,621

No residual values of assets leased under finance lease at the end of the year are estimated.

The interest rate inherent in the finance lease is fixed at the contract date for the entire lease term.

The average effective interest rate contracted is approximately 34.48 percent per annum for 2016, 2015 and 2014. The receivable under finance lease balance as of December 31, 2016, 2015 and 2014, is neither past due nor impaired.

8.2. Finance lease receivable – Los Ramones I

	As of 12/31/16
Current finance lease receivables	$ 3,383
Non-current finance lease receivables	571,070
	$ 574,453

Leasing arrangements.

The Company entered into a finance lease arrangement for one of its natural gas pipelines and compression stations. The lease is denominated in U.S. Dollars. The term of the finance lease is 25 years.

8.2.1. Amounts receivable under finance leases

		Minimum lease Payments As of 12/31/16		Present of minimum lease payments As of 12/31/16
Not later than one year	$	3,384	$	3,384
Later than one year and not later than five years		430,496		23,997
More than five years		984,650		547,072
		1,418,530		574,453
Less: unearned finance income		(844,077)		n/a
Present value of minimum lease payments receivable		574,453		574,453
	$	574,453	$	574,453

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The interest rate inherent in the finance lease is fixed at the contract date for the entire lease term.

The average effective interest rate contracted is approximately 15.17 percent per annum for 2016. The receivable under finance lease balance as of December 31, 2016 is neither past due nor impaired.

8.3. *Finance lease receivable – Ethane Pipeline*

		As of 12/31/16
Current finance lease receivables	$	3,553
Non-current finance lease receivables		365,106
	$	368,659

Leasing arrangements.

The Company entered into a finance lease arrangement for one of its ethane pipeline. The lease is denominated in U.S. Dollars.

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI (Braskem-IDESA) to Cangrejera, through a 20 inches pipeline of 4 Km. The term of the finance lease is 20.5 years. The average effective interest rate contracted is approximately 16.0 percent in 2016.

Segment II. Transports ethane from Nuevo Pemex to Cactus (Chiapas) through a 16 inches pipeline of 15 Km and Cactus to the Ethylene XXI Complex (Braskem-IDESA) through a 24 inch pipeline of 133.5 Km. The term of the finance lease is 20.5 years. The average effective interest rate contracted is approximately 14.0 percent in 2016.

Segment III. Transports ethane liquid from Ciudad Pemex to Nuevo Pemex (Tabasco) through a 20 inch pipeline of 73.5 Km. The term of the finance lease is 21 years. The average effective interest rate contracted is approximately 14 percent in 2016.

The breakdown of this finance lease is as follows.

Segment I	$ 31,951
Segment II	187,936
Segment III	148,772
Total	$ 368,659

8.3.1. Amounts receivable under finance leases

	Minimum lease Payments As of 12/31/16	Present of minimum lease payments As of 12/31/16
Not later than one year	$ 55,976	$ 3,553
Later than one year and not later than five years	268,951	28,779
More than five years	439,651	336,327
	764,578	368,659
Less: unearned finance income	(395,919)	n/a
Present value of minimum lease payments receivable	$ 368,659	$ 368,659

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The receivable under finance lease balance as of December 31, 2016, is neither past due nor impaired.

9. Other assets

	12/31/16	As of 12/31/15	12/31/14
Prepayments	$ 9,495	$ 5,782	$ 5,629
Pipeline interconnection rights	1,792	1,938	2,285
IMPAC recoverable	1,698	2,450	3,429
Land leases	839	101	54
Natural gas imbalance	320	243	806
	$ 14,144	$ 10,514	$ 12,203
Current	$ 9,289	$ 8,576	$ 9,918
Non – current	4,855	1,938	2,285
	$ 14,144	$ 10,514	$ 12,203

10. Investment in joint ventures

10.1. GdC

Until September 26, 2016, the Company owned a 50.0 percent interest in GdC, a joint venture with Pemex TRI (Please refer to Note 11). GdC operates three natural gas pipelines, five natural gas compression stations, one propane system in Mexico and one ethane pipeline, in the states of Chiapas, Chihuahua, Nuevo León, Tabasco, Tamaulipas and Veracruz and one propane gas storage facility in the state of Jalisco, Mexico.

Beginning on September 27, 2016, the Company fully consolidated GdC. As of September 26, 2016, there have been no other changes in the Company's ownership or voting rights in this joint venture.

GdC's Condensed Consolidated Financial Statements and the Company's equity method investment are summarized as follows.

	12/31/15	12/31/14
Cash and cash equivalents	$ 22,080	$ 74,931
Short-term investments	10,780	58,233
Other assets	55,383	94,086
Current assets	88,243	227,250
Finance lease receivables	952,201	346,314
Property, plant and equipment, net	320,079	673,714
Investments in joint venture	131,338	140,160
Other assets	1,727	413
Deferred income tax asset	12,314	359
Non-current assets	1,417,659	1,160,960
Total assets	$ 1,505,902	$ 1,388,210
Current liabilities	$ 133,730	$ 31,201
Non-current liabilities	662,307	724,810
Total liabilities	796,037	756,011
Total members' equity	$ 709,865	$ 632,199
Share of members' equity	$ 354,933	$ 316,100
Goodwill	64,943	64,943
Carrying amount investment in GdC	$ 419,876	$ 381,043

	Period ended 09/26/16	Year ended 12/31/15	Year ended 12/31/14
Revenues	$ 199,996	$ 249,424	$ 496,789
Operating, administrative and other expenses	(60,174)	(66,539)	(368,802)
Finance cost	(20,989)	(28,673)	(26,973)
Income tax expense	(53,409)	(64,307)	(42,456)
Share of profit (loss) of joint venture, net of income tax	15,417	(6,936)	(9,019)
Profit for the period / years	$ 80,841	$ 82,969	$ 49,539
Share of profits of GdC	$ 40,421	$ 41,485	$ 24,770

a) *Credit agreement*. On December 5, 2013, GdC entered into a credit agreement for $490.0 million with BBVA Bancomer, Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, Bank of Tokyo Mitsubishi UFJ, Ltd., Mizuho and Norddeutsche Landesbank ("NORD / LB"), for the purpose of funding the Los Ramones I pipeline project. The funding is contracted for a term of 13.5 years, with quarterly principal payments, bearing interest at the 90 day LIBOR plus 200 to 275 basis points. This funding is guaranteed by collection rights of certain GdC projects. Borrowings under the facility began in 2014. As of December 31, 2016, GdC has $370.0 million of outstanding borrowings.

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, exchanging the LIBOR for a fix rate of 2.63 percent.

b) *Regular investment contribution to TAG*, TAG is owned by GdC through its subsidiary, DEN, and partners, TETL JV Mexico Norte, S. de R. L. de C. V. and TAG Pipeline Norte. As of December 31, 2016, the contributions are as follows:

	As of 12/31/16
Pemex TRI *	$ 90,045
IEnova *	90,045
	$ 180,090

* Includes interests.

Under the terms of the contract, the contributions made in 2014, are presented as loans to DEN. As of December 31, 2016 and 2015, amounts outstanding have generated interest of $4.0 million and $4.6 million respectively (Please refer to Note 6.2.).

c) On December 19, 2014, TAG Norte Holding entered into a loan as a debtor, signing a promissory note in favor of Santander, the amount of such loan is of $1.3 million approximately (including a LC facility for Debt Service Reserve). In addition TAG Norte Holding entered into a derivative instrument in order to hedge the interest rate risk.

d) In December 2015, TAG Pipelines, Norte contracted derivative instruments in order to hedge the risk of exchange rate changes. TAG Pipeline Norte entered into forward contracts with five banks to exchange pesos for dollars of a portion of the projects revenues for 2016; maturing through 2016 and in the first quarter of 2017. Additionally, in September 2016, TAG Pipeline Norte entered into forward contracts to exchange pesos for dollars of a portion of the projects' revenues for 2017; maturing through 2017 and in the first quarter of 2018.

10.2. ESJ

On July 16, 2014, CSJ, a subsidiary of IEnova, completed the sale of a 50-percent interest in the first phase of ESJ to a wholly owned subsidiary of InterGen N. V. ("InterGen"). The net cash received by this transaction was $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 Consolidated Statements of Profit.

ESJ started operations in June 2015.

As of December 31, 2016, the Company's remaining 50-pecent 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 12/31/16	Year ended 12/31/15	Year ended 12/31/14
Cash and cash equivalents	$ 9,601	$ 12,930	$ 4,784
Other assets	15,201	21,937	6,339
Current assets	24,802	34,867	11,123
Property, plant and equipment, net	264,468	276,352	258,885
Other assets	2,650	12,347	10,189
Deferred income tax	5,413	6,534	7,914
Non-current assets	272,531	295,233	276,988
Total assets	$ 297,333	$ 330,100	$ 288,111
Current liabilities	$ 17,777	$ 7,248	$ 11,815
Non-current liabilities	255,070	306,635	259,548
Total liabilities	272,847	313,883	271,363
Total members' equity	$ 24,486	$ 16,217	$ 16,748
Share of members' equity	$ 12,243	$ 8,108	$ 8,374
Goodwill	12,121	12,121	12,121
Carrying amount of investment in ESJ	$ 24,364	$ 20,229	$ 20,495

ESJ´s Condensed Consolidated Statement of Profit is as follows:

	Year ended 12/31/16	Year ended 12/31/15	For the period of 07/16/2014 to 12/31/14
Revenues	$ 44,283	$ 29,227	$ -
Operating, administrative and other expenses	(20,773)	(13,491)	(571)
Other gain, net	221	-	-
Finance (cost) income, net	(16,731)	(9,426)	67
Income tax expenses	(1,886)	(4,642)	(2,343)
Profit (loss) for the year / period	$ 5,114	$ 1,668	$ (2,847)
Share of profits (loss) of ESJ	$ 2,557	$ 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 as coordinating lead arranger, the North American Development Bank ("NADB") as technical and modeling bank, Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFINSA"), NORD/LB and SMBC as lenders.

On June 30, 2015, ESJ converted the construction loans into 18-year term loans. The credit facilities mature on June 30, 2033, with payments due on a semi-annual basis (each June 30 and December 30 until the final maturity date), starting on December 30, 2015. The credit facilities bear interest at LIBOR plus the applicable margin.

Years	LIBOR applicable margin
June 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 per the financing agreement, the ability to make withdrawals ended on the term conversion date June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of $239.8 million. The debt outstanding is $227.5 million and the breakdown is as follows:

	Debt balance
MIZUHO	$ 51,069
NAFINSA	37,141
NORD/LB	51,069
NADB	37,141
SMBC	51,069
	$ 227,489

b) *Interest rate swaps.* To partially mitigate its exposure to interest rate changes associated with the term loan, ESJ entered into floating-to-fixed interest rate swaps for 90-percent of the ESJ project financing loan amount. There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014 and an effective date of June 30, 2015, the date of conversion to a term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.

c) *Financing of the project's VAT with Santander*. On June 12, 2014, ESJ entered into a line of credit with Santander and on February 23, 2015 there was an amendment to increase the line for up to $501.0 million Mexican Pesos (approximately $35.0 million historical U.S. Dollar equivalent). Interest on each withdrawal 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 had withdrawn $472.6 million Mexican Pesos of this credit line. On December 23, 2015 ESJ repaid and canceled the total credit facility.

d) *Other disclosures.* The member's agreement provides certain restrictions and benefits to the sale of the membership interest in ESJ. The agreement establishes that capital calls that are to be contributed on a pro rata basis by the members. CSJ and its joint venture partner have provided guarantees of payment of amounts due by ESJ and its subsidiaries under the wind turbine supply agreement with Vestas WTG México, S. A. de C. V. The guarantees are immaterial as of December 31, 2016, 2015 and 2014.

10.3. IMG

In June 2016, IMG, the joint venture formed between IEnova and TransCanada, whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest.

As of December 31, 2016, the Company's interest in IMG is accounted for under the equity method. IMG Condensed Consolidated Financial Statements and the Company's equity method investment is summarized as follows:

		12/31/16
Cash and cash equivalents	$	128,110
Other assets		12,947
Total current assets		141,057
Total non-current assets		135,494
Total assets	$	276,551
Current liabilities	$	27,916
Non-current liabilities		2,678
Total liabilities	$	30,594
Total members' equity	$	245,957
Share of members' equity and carrying amount of investment in IMG	$	98,383

		12/31/16
Operating, administrative and other expenses	$	(1,646)
Finance income, net		(467)
Income tax expense		(3,122)
Loss for the period	$	(5,235)
Share of losses of IMG	$	(2,094)

a) *Project financing for the IMG*

As of now, the project resources for the design and construction of the marine pipeline have been funded with capital contributions of its members.

10.4. DEN

DEN is a joint venture formed between IEnova and Pemex TRI in which the Company owns 50-percent equity interest. (Please refer to Note 1.2.3.)

As of December 31, 2016, the Company's remaining 50 percent interest in DEN is accounted for under the equity method. DEN's Condensed Consolidated Financial Statements and the Company's equity method investment is summarized as follows:

	As of 12/31/16
Cash and cash equivalents	$ 8,819
Due from unconsolidated affiliates	4,012
Other assets	4,278
Total current assets	17,109
Investments in join venture	155,327
Deferred income tax	17,364
Other assets	1,461
Property, plant and equipment, net	228
Total non-current assets	174,380
Total assets	$ 191,489
Current liabilities	$ 646
Non-current liabilities	185,627
Total liabilities	$ 186,273
Total members' equity	$ 5,216
Share of members' equity and carrying amount of investment in DEN	$ 2,608

	For the period from 09/26/16 to 12/31/16
Revenues	$ 5,623
Operating, administrative and other expenses	(5,310)
Other losses	(341)
Finance cost, net	(2,126)
Income tax benefit	3,464
Share of profit of joint ventures, net of income tax	2,604
Profit for the period	$ 3,914
Share of profits of DEN	$ 1,957

TAG Holding, together with TAG Pipeline Norte a joint venture between DEN and an affiliate of Pemex, and a consortium comprised of BlackRock and First Reserve, own Los Ramones Norte pipeline, which began operations in February 2016.

a) *TAG Project financing*

On December 19, 2014, TAG Norte Holding, (subsidiary of DEN), entered into a credit contract with Santander (as lender, administrative agent and collateral agent), with the purpose of financing the engineering, procurement, construction and commissioning of the gas pipeline. During 2016 and 2015, there were amendments to the credit in order to include additional banks as part of the credit. The total amount of the credit is $1,276.2 million, divided in tranches: i) long tranche, up to $701.9 million, ii) short tranche up to $511.8 million and iii) the letter of credit tranche for debt service reserve up to $62.5 million.

The credit facilities mature in December 2026 and December 2034 for the short and long tranche loan respectively, with payments due on a semi-annual basis. The credit facilities bear interest at LIBOR plus the spread.

Years	Applicable margin (basis points)
1st disbursement– System (Commercial Operation Date)	250
0 – 4	265
5 – 9	300
10 – 14	325
15 – 18.5	350

As of December 31, 2016, the total outstanding loan is $1,214.4 million, with its respective maturities. TAG Norte Holding hedged a portion of the loans tied to the interest rate risk through an interest rate swap, by changing the variable rate for a fixed rate.

The loans mentioned above contain restrictive covenants, which require the Company to maintain certain financial ratios and limits dividend payments, loans and obtaining of additional financing. TAG Norte Holding met such covenants as of December 31, 2016.

Long-term debt due dates are as follows:

Year	Amount
2017	$ 88.4
2018	58.9
2019	58.9
2020	58.9
Thereafter	949.3
Total	$ 1,214.4

Debt for financing value-added tax. On December 19, 2014, TAG Pipeline Norte signed a credit agreement for financing VAT with Santander. The amount of the credit line is $3,680.9 million Mexican Pesos. As of December 31, 2016, dispositions of $3,660.0 million Mexican Pesos were taken from the credit line and advance payments were made for $3,399.0 million Mexican Pesos.

11. Business combinations

11.1. GdC

On September 26, 2016, IEnova acquired the remaining 50 percent of the shares of GdC at a value of $1,143.8 million as mentioned in note 1.2.3., which was recorded using the acquisition method as it obtained control over GdC as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. ***Subsidiaries acquired***

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Gasoductos de Chihuahua S. de R. L. de C. V. and subsidiaries	Operation of natural gas compression station	September 26, 2016	50%	$1,143,834

GdC was acquired to continue the expansion of the Company.

b. ***Consideration transferred***

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit and Other Comprehensive Income.

c. ***Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions***

	GdC As of 9/26/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	$ 1,143,834
Total fair value of business combination	$ 2,287,668
Cash and cash equivalents	66,250
Trade and other receivables	66,739
Finance lease receivables	945,104
Property, plant and equipment, net	309,186
Other assets	933
Current liabilities	(112,980)
Non-current liabilities (1)	(484,572)
Total identifiable, net assets	790,660
Goodwill	$ 1,497,008

(1) Includes $364.0 million related to bank loans.

The initial accounting for the acquisition of GdC has only been provisionally determined at the end of the reporting period.

None of the goodwill is expected to be deductible for tax purposes.

Key sources of estimation uncertainty

Selected Valuation Methodology.

GdC is a regulated business, that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

d. ***Net cash flow from acquisition of subsidiaries***

	As of 09/26/2016
Consideration paid in cash	$ 1,143,834
Less: balances of cash and cash equivalents acquired	(66,250)
Consideration paid in cash, net	$ 1,077,584

e. ***Impact of acquisitions on the results of the period***

The results at the acquisition date, includes a gain of $673.1 million for the excess of the acquisition-date fair value of IEnova's previously held equity interest in GdC over the carrying value of that interest, included as Remeasurement of Equity Method Investment on the Consolidated Statements of Profit. Please refer to Exhibit A "Proforma additional information"

11.2. Ventika

On December 14, 2016, IEnova acquired the 100 percent of the shares of Ventika at a value of $434.7 million as mentioned in Note 1.2.6., which was recorded using the acquisition method as it obtained control over Ventika as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. ***Subsidiaries acquired***

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Ventika	Wind Farm	December 14, 2016	100%	$434,688

Ventika was acquired to continue the expansion of the Company.

b. ***Consideration transferred***

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit and Other Comprehensive Income.

c. ***Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions***

	Ventika As of 12/14/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	$ 309,724
Total fair value of business combination	$ 309,724
Cash and cash equivalents	24
Restricted cash	68,299
Trade and other receivables	14,939
Property, plant and equipment, net	673,410
Intangible assets	154,144
Other assets	37,527
Current liabilities	(145,912)
Non-current liabilities	(621,825)
Total identifiable, net assets	180,606
Goodwill	$ 129,118

The initial accounting for the acquisition of Ventika has only been provisionally determined at the end of the reporting period.

None of the goodwill is expected to be deductible for tax purposes.

Key sources of estimation uncertainty

Selected Valuation Methodology.

- Based on the nature of the power facility and generally accepted industry practice, we relied on the Income Approach, specifically the DCF method.
- Associated intangibles such as rights of way / easements are embedded in the value of the Property Plant and Equipment.
- While the Cost Approach was not relied upon to derive our fair value estimate, provided the income approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to our fair value estimate derived utilizing the Income Approach. It is noted that our derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

d. ***Net cash flow from acquisition of subsidiaries***

	As of 12/15/16
Consideration paid in cash	$ 434,688
Less: balances of cash and cash equivalents acquired	(24)
Consideration paid in cash, net	$ 434,664

Please to refer Exhibit A "Proforma additional information"

12. Assets classified as held for sale and discontinued operations

a. As mentioned in Note 1.2.2., the Company's management approved a plan to market and sell TDM, a 625 MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As of March 31, 2016, the assets and liabilities were classified under current assets and liabilities as held for sale. The results of TDM are presented within discontinued operations.

b. Details of the discontinued operations are provided as follows:

TDM is a part of the Power Segment; its Consolidated Financial Statements are summarized as follows:

	12/31/16	12/31/15	12/31/14
Revenues	$ 101,547	$ 143,500	$ 224,663
Cost of revenues	(85,446)	(114,209)	(174,360)
Operating, administrative and other expenses	(17,515)	(22,354)	(19,726)
Depreciation and amortization	(2,222)	(15,212)	(15,215)
Impairment	(136,880)	-	-
Interest income, net	25	42	112
Finance costs	(254)	(244)	(236)
Other losses, net	(1,396)	(151)	(2,801)
Income tax benefit (expense)*	29,809	(6,169)	(8,427)
(Loss) income for the year	$ (112,332)	$ (14,797)	$ 4,010

* As of December 31, 2016, the Company recorded a deferred tax expense in the amount of $6.8 million, to recognize the difference between book value and tax basis, as a result of the decision to classify TDM as a held for sale. This effect is shown in the Consolidated Statements of Profit in the line of item “Loss for the period from discontinued operations, net of income tax”.

	12/31/16	12/31/15	12/31/14
Loss per share:			
Losses per share from discontinued operations:			
Basic and diluted (loss) earnings per share	$ (0.09)	$ (0.01)	$ 0.01

Assets and liabilities held for sale corresponding to TDM are as follows:

	12/31/16
Cash and cash equivalents	$ 434
Other assets	32,813
Total current assets	33,247
Property, plant and equipment, net (1)	134,633
Carbon allowance	22,089
Other assets	1,125
Deferred income tax assets	193
Total non-current assets	158,040
Total assets	$ 191,287
Current liabilities	$ 7,974
Non-current liabilities	27,477
Total liabilities	$ 35,451

(1) As a result of the allocation in assets held for sale property, made during this year, the Company carried out a review of the recoverable amount of these assets. The review led to the recognition of an after-tax impairment loss of $89.0 million which has been recognized in the Consolidated Statements of Profit. The Company also estimated the fair value less costs of disposal of property, plant and equipment, which is based on the recent market prices of assets with similar age and obsolescence. Impairment assessment was performed in 2015; however, there was no impairment indicator.

	As of 12/31/16
Cash flows from discontinued operations:	
Net cash flows used by operating activities	$ (868)
Net cash flows used in investing activities	(2,198)
Net cash outflows used in financing activities	(256)
Net cash outflows	$ (3,322)

13. Goodwill

	12/31/16	12/31/15	12/31/14
Cost	$ 1,651,780	$ 25,654	$ 25,654

There are no accumulated impairment losses.

The breakdown of goodwill is as follows:

Company		Amount
GDC	$	1,497,008
Ventika		129,118
Initial goodwill		25,654
Total	$	1,651,780

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 DCF analysis of IEnova Gasoductos México's projected results. The DCF for 2016, 2015 and 2014, 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 may have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for 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.

14. Property, plant and equipment, net

			As of			
		12/31/16		12/31/15		12/31/14
Carrying amounts of:						
Buildings and plants	$	3,110,525	$	2,586,775	$	2,287,706
Equipment		96,017		86,965		64,572
Other assets		59,670		38,843		32,948
		3,266,212		2,712,583		2,385,226
Accumulated depreciation and amortization		(433,074)		(557,563)		(497,686)
Land		82,404		76,524		74,988
Properties under construction		698,543		364,296		415,211
	$	3,614,085	$	2,595,840	$	2,377,739

Cost	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Balance as of January 1, 2014	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
Assets held for sale	(674)	(436,077)	(7,525)	(533)	(2,935)	(447,744)
Additions	282	15,523	17,085	332,682	17,386	382,958
Business combination GdC	6,026	296,520	-	-	8,750	311,296
Business combination Ventika	252	673,531	-	-	-	673,783
Disposals	-	(1,021)	(164)	-	(738)	(1,923)
Effect of foreign currency translation	(6)	(26,882)	(344)	(724)	(1,636)	(29,592)
Revisions and additions to decommissioning liability	-	4,978	-	-	-	4,978
Balance as of December 31, 2016	$ 82,404	$ 3,113,347	$ 96,017	$ 695,721	$ 59,670	$ 4,047,159
Accumulated depreciation						
Balance as of January 1, 2014	-	(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
Balance as of December 31, 2015	-	(523,842)	(10,606)	-	(23,115)	$ (557,563)
Assets held for sale	-	178,795	-	-	1,622	180,417
Eliminated on disposals of assets	-	271	111	-	270	652
Depreciation expense	-	(57,741)	(2,241)	-	(3,468)	(63,450)
Effect of foreign currency translation	-	6,732	186	-	886	7,804
Other	-	(934)	-	-	-	(934)
Balance as of December 31, 2016	$ -	$ (396,719)	$ (12,550)	$ -	$ (23,805)	$ (433,074)

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 2016, 2015 and 2014, are 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 1.2.8.). As of December 31, 2016, 2015 and 2014 additions of property, plant and equipment that were not paid, amount to $49.8 million, $5.2 million and $27.0 million, respectively.

Borrowing cost. The Company capitalized borrowing costs on qualifying assets of $14.8, $15.1 and $21.0 for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 3.33 percent, 3.47 percent, respectively, for the periods ended December 31, 2016, 2015 and 2014 respectively.

14.1. Useful lives of property, plant and equipment

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility [1]	5-45
Plant and equipment for Wind Power Generation Facilities	20
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

15. Other intangible assets

	2016
Carrying amounts of:	
Renewable transmission rights	$ 154,144

This amount corresponds to the renewable transmission and consumption rights associated with projects approved under the preexisting self-supply renewable program.

16. Trade and other payables

	12/31/16	**12/31/15**	**12/31/14**
Trade payables	$ 93,731	$ 43,830	$ 41,436
Other miscellaneous payables	835	19	38
Trading financial instrument payable (a)	-	-	18,101
	$ 94,566	$ 43,849	$ 59,575

The average credit period on purchases of goods and services is between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Trading financial instruments

In 2014 the Company entered into a derivative financial instrument agreement to hedge the volatility of the fluctuation of the Mexican Peso relative to the U. S. Dollar. Certain monetary assets and liabilities of the Company were denominated in U. S. Dollars (functional currency); however, they were remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes. Such derivative financial instrument was terminated in 2014.

17. Employee benefits

17.1. 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 percent immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100 percent in case of death or disability, and in case of voluntary termination according with the Company policy.

17.2. Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in México. Under the plans, the employees are entitled to retirement benefits varying between 55 percent and 100 percent of their final salary upon reaching the retirement age of 65. No other post-retirement benefits are provided to these employees.

17.3. Seniority premium benefits

The Company provides seniority premium benefits, which consist of a lump sum payment of 12 days of wages per each year worked, calculated using the employee's most recent salary, not to exceed twice the minimum wage established by law.

17.3.1. ***Costs and obligations for post-employment and other long-term employee benefits***

The principal assumptions used for the purposes of the actuarial valuations were as follows.

	Valuation at		
	12/31/16	**12/31/15**	**12/31/14**
Discount rates	8.00%	8.00%	8.25%
Expected rates of salary increase	4.75%	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%	3.75%
Exchange rate	$ 19.72	$ 17.20	$ 14.72

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.

	12/31/16	12/31/15	12/31/14
Current service cost recognized in administrative and other expenses	$ 646	$ 531	$ 381
Interest on obligation recognized in finance costs	345	321	209
Actuarial (losses) gain recognized in OCI	1,765	(1,793)	357

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:

	12/31/16	12/31/15	12/31/14
Opening defined benefit obligation	$ 4,295	$ 3,045	$ 2,684
Current service cost	585	531	381
Interest cost (benefit)	309	321	(50)
Actuarial loss (gain)	435	(655)	357
Exchange differences on plans maintained by Mexican peso functional currency entities	-	1,102	(294)
Payment	115		
Benefits paid	(153)	(49)	(33)
Ending defined benefit obligation	$ 5,586	$ 4,295	$ 3,045

18. Other financial liabilities

	12/31/16	12/31/15	12/31/14
Accrued interest payable (a)	$ 4,855	$ 5,661	$ 6,561
Customer deposits	1,022	783	662
	$ 5,877	$ 6,444	$ 7,223

(a) Balance represents accrued interest payable on long-term debt (Please refer to Note 23).

19. Other liabilities

	12/31/16	12/31/15	12/31/14
Wages and benefits payable	$ 14,995	$ 12,482	$ 11,964
Other current liabilities	13,866	4,755	11,734
	$ 28,861	$ 17,237	$ 23,698

20. 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 electricity generation. Under the bill TDM is subject to this extraterritorial regulation, despite being located in Baja California, Mexico since their end users are located in California, U. S.

The Company records 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 derecognizes the assets and liabilities from the Consolidated Statements of Financial Position as the allowances are surrendered. Please refer to Note 12.

Carbon allowances are shown in the Consolidated Statements of Financial Position as follows:

		Year ended	
Assets:	**12/31/16**	**12/31/15**	**12/31/14**
Current	$ -	$ 5,385	$ 29,864
Non-current	-	12,975	229
	$ -	$ 18,360	$ 30,093

		Year ended	
Liabilities	**12/31/16**	**12/31/15**	**12/31/14**
Current	$ -	$ 5,385	$ 29,864
Non-current	-	12,611	-
	$ -	$ 17,996	$ 29,864

21. Short-term debt

As of December 31, 2016, 2015 and 2014, within other financial liabilities short-term debt includes the following:

	12/31/16	**12/31/15**	**12/31/14**
Credit agreement (a)	$ 446,034	$ 91,374	$ 51,020
Current portion of GdC´s Bank Loan (b)	38,682	-	-
Current portion of Ventika Bank Loan (c)	13,482	-	-
Santander (d)	-	-	145,346
	498,198	91,374	196,366
Borrowing costs	(4,627)	(2,867)	(1,277)
	$ 493,571	$ 88,507	$ 195,089

(a) *Credit agreement.* On August 21, 2015, the Company entered into an agreement for a $400.0 million, U.S. Dollar-denominated, five-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lenders are Banco Nacional de Mexico, S. A. Integrante de Grupo Financiero Banamex, SMBC, Santander, The Bank of Tokyo-Mitsubishi UFJ, LTD., and The Bank of Nova Scotia.

Credit facility with SMBC. On August 25, 2014, the Company entered into an agreement for a $100.0 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Sumitomo Mitsui Banking Corporation. Interest accrues based on the 3-month LIBOR plus 105 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.

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 22, 2015, the Company renegotiated the credit line of agreement for an amount up to $600.0 million, U.S. Dollar-denominated. On December 23, 2015 the Company decided to repay $219.0 million (principal) of such credit facility.

Withdrawal of credit line. In July, 2016, the Company withdrew $380.0 million, of such credit line to be used for working capital and general corporate purposes. In December, 2016 the Company withdrew $375.0 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On November 3, 2016 the Company renegotiated the credit line of such credit agreement for an amount up to $1,170.0 million, U.S. Dollar-denominated on December 30 2016, a portion of this revolving credit was repaid in the amount of $200.0 million. As of December 31 2016, the available unused credit portion is $724.0 million.

(b) Please refer to Note 10.1.

(c) *Financing of project's value added tax* - On April 8, 2014, Ventika and Ventika II entered into a line of credit with Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFIN") and Banco Nacional de Comercio Exterior, S. N. C. Institución de Banca de Desarrollo ("BANCOMEX"), as lenders. On December 17 2015, there was an amendment to increase the line for up to $569.4 million Mexican Pesos and $713.3 million Mexican Pesos, respectively. Interest will be accrued at the TIIE plus 250 basis points payable on a quarterly basis. The credit line under this contracts will be used to finance the VAT on the Ventika projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.

(d) Credit facility with Santander. On June 19, 2014, the Company entered into an agreement for a $200.0 million, U.S. Dollar- denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender Santander. Interest accrued base on the 3- month LIBOR plus 105 basis points. During July and August 2015, the Company withdrew $76.0 million and $25.0 million respectively. On August 26, 2015, the Company decided to repay the total credit facility. As a result, transaction cost were recorded in the Consolidated Statements of Profit.

22. Provisions

	12/31/16	12/31/15	12/31/14
Decommissioning liabilities (a)	$ 41,618	$ 34,236	$ 38,250
Other (b)	10,347	1,293	1,619
	$ 51,965	$ 35,529	$ 39,869
Current	$ 930	$ 1,293	$ 1,619
Non-current	51,035	34,236	38,250
Total provisions	$ 51,965	$ 35,529	$ 39,869

	Asset retirement obligations	Others	Total
Balance as of January 1, 2014	$ 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	1,596	-	1,596
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	(5,610)	-	(5,610)
Balance as of December 31, 2015	$ 34,236	$ 1,293	$ 35,529
Additional provisions recognized	1,715	9,380	11,095
Increase financial cost	1,735	-	1,735
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	3,932	-	3,932
Balance as of December 31, 2016	$ 41,618	$ 10,347	$ 51,965

(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 4.54 percent, 4.66 percent and 4.14 percent at December 2016, 2015 and 2014, 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 percent.

23. Long-term debt

a. On February 14, 2013, the Company entered into two public debt issuances of Certificados Bursatiles "CEBURES" or debt securities as follows:

   i) The first placement was for $306.2 million ($3.9 billion of historical Mexican Pesos) bearing interest at a rate of 6.30 percent, with semi-annual payment of interest, maturing in 2023.

   ii) The second placement was for $102.1 million ($1.3 billion of historical Mexican Pesos) bearing interest at variable rate based on TIIE plus 30 basis points, with monthly payments of interest, maturing in 2018. The average rate as of December 31, 2016, was 4.64 percent.

As of December 31, 2016, 2015 and 2014, long-term debt includes:

	12/31/16	12/31/15	12/31/14
Santander -Ventika (d)	$ 472,781	$ -	$ -
Bancomer - GdC (c)	317,279	-	-
CEBURES fixed rate (a)	188,734	226,659	264,981
CEBURES variable rate (b)	62,911	75,553	88,327
	1,041,705	302,212	353,308
Debt issuance costs	(1,901)	(2,287)	(2,670)
	$ 1,039,804	$ 299,925	$ 350,638

b. *Cross-currency and interest rate swaps.* On February 14, 2013, regarding the placements of CEBURES, the Company executed cross-currency and interest rate swap contracts for hedging its exposure to the payment of its liabilities in Mexican Pesos:

i) For the debt maturing in 2023, the Company swapped fixed rate in Mexican Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U.S. Dollars for this swap was 4.12 percent.

ii) For the debt maturing in 2018, the Company swapped variable rate in Mexican Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U.S. Dollars for this swap was 2.65 percent.

The swaps' total notional value is $408.3 million ($5.2 billion historical Mexican Pesos). These contracts have been designated as cash flow hedges.

c. Please refer Note 10.1(a).

In such credit, GdC was defined as debtor, TDF together with GdT were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by GdC, TDF and GdT as source of payment for the credit.

Covenants arising from the credit require for following:

Maintain a minimum member´s equity during the term of the loan, in the amount indicated:

GdC	$	450,000
GdT		130,000
TDF		90,000

Maintain an interest coverage ratio 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 Company has complied with these obligations.

d. *Project financing for the Ventika project*. On April 8, 2014, Ventika and Ventika II entered into a project finance loans for the construction of the wind projects with five banks: Santander as administrative and collateral agent, the North American Development Bank ("NADB"), and Banco Nacional de Obras y Servicios Publicos, S. N. C. Institución de Banca de Desarrollo ("BANOBRAS"), Banco Nacional de Comercio Exterior, S. N. C. Institución de Banca de Desarrollo ("BANCOMEXT"), and Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFIN") as lenders.

The credit facilities mature according to the following table, with payments due on a quarterly basis (each March 15, June 15, September 15 and December 15 until the final maturity date), starting on December 15, 2016. The credit facilities bear interest as follow:

Bank	Maturity date	Interest rate Applicable
SANTADER	3/15/2024	LIBOR + applicable margin
BANOBRAS	3/15/2032	LIBOR + applicable margin
NADB	3/15/2032	Fixed rate + applicable margin
BANCOMEX	3/15/2032	Fixed rate + applicable margin
NAFIN	3/15/2032	Fixed rate + applicable margin

The breakdown of the debt is as follows:

	As of 12/31/16
SANTANDER	$ 113,442
BANOBRAS	90,399
NADB	140,652
BANCOMEX	70,320
NAFIN	70,320
INTEREST PAYABLE	1,130
	$ 486,263

Interest Rate Swaps. In order to mitigate the impact of benchmark interest rate changes, Ventika and Ventika II entered into four interest rate swaps with Santander and BANOBRAS; that allow Ventika and Ventika II to have almost 92 percent of the mentioned credit facilities above fixed. The swap contracts allow for the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent respectively, and to receive variable interest rate (3 month LIBOR).

24. Financial instruments

24.1. 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 Initial Public Offering ("IPO"). The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends. (Please refer to Note 1.2.5.)

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 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, 2016, 2015 and 2014, the Company had complied with the above requirements.

24.2. Categories of financial instruments

		12/31/16		12/31/15		12/31/14
Financial assets						
Cash and cash equivalents	$	24,918	$	40,377	$	83,637
Short term investment		80		20, 068		30,020
Restricted cash		51,363		-		-
FVTPL						
Held for trading		8,120		21,994		34,729
Amortized cost						
Loans and receivables		218,214		193,102		239,777
Financial leasing		957,466		14,510		14,621
Financial liabilities						
FVTPL						
Held for trading	$	226,161	$	133,056	$	107,257
Amortized cost		1,897,812		829,835		665,390

24.3. Financial risk management objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

24.4. Market risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The Parent's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

24.5. Value at Risk ("VaR") analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95 percent confidence interval in its VaR calculations. The one-day 95 percent VaR number reflects the 95 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day) by risk type	12/31/16	Year ended 12/31/15	12/31/14
Interest rate swap	$ 4,025	$ 3,761	$ 4,606
Total VaR exposure	$ 3,824	$ 3,573	$ 4,376

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95% confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.

24.6. Commodity price risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Refer to Note 24.5.

24.7. *Foreign currency risk management*

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it also has balances in Mexican Pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	Financial assets		
	12/31/16	**12/31/15**	**12/31/14**
U. S. Dollar functional currency subsidiaries	$ 171,462	$ 159,824	$ 174,435
Mexican Peso functional currency subsidiaries	19,900	30,110	26,011

	Financial liabilities		
	12/31/16	**12/31/15**	**12/31/14**
U. S. Dollar functional currency subsidiaries	$ 779,000	$ 585,062	$ 593,099
Mexican Peso functional currency subsidiaries	34,012	31,713	37,531

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, IT and Flat Tax (IETU by initials in Spanish) receivables or payables, prepaid expenses, guarantee deposits, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, 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.

	12/31/16	**12/31/15**	**12/31/14**	**02/21/2017**
One U.S. Dollar	$ 20.6640	$ 17.2065	$ 14.7180	$ 20.4526

24.7.1. Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 24.7. are exposed to the Mexican Peso for its U.S. Dollar functional currency subsidiaries and to the U.S. Dollar for its Mexican Peso functional currency subsidiaries.

The following table details the Company's profit and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. Dollar functional currency			Mexican Peso functional currency		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Profit (i)	$ 38,662	$ 27,061	$ 17,623	$ 898	$ 94	$ -
OCI		-	-	(9,486)	(5,692)	(4,731)

(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, 2016, 2015 and 2014 mainly due to income tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2016, 2015 and 2014 mainly due to lower intercompany loans with unconsolidated affiliates.

24.8. Interest rate risk management

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450.0 million from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of $30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item. As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of $151,232 in under which IEnova received a variable interest rate (three-month LIBOR) and payed a fixed interest rate of 5.0 percent.

The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a prepayment in the amount of $29.8 million and as a result, such derivative was cancelled. The one-year VaR information related to the interest rate swap is included in Note 24.5.

24.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

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 (Please refer to Note 23).

Additionally, as described in Note 10.2 (b) the joint venture with InterGen entered into a swap contract that effectively hedges the interest rate risk due to variable rate financings.

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.

24.9. Credit risk management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In ECO, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, (which are confirmed); and,
- Registration with tax agency for commercial customers with minor consumption

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and,
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100% of the balances of major customers by the credit and collection department, to make sure that payments are made on a timely manner and to ensure that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty's nonperformance.

For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements and, therefore, rely on these agreements for future performance.

24.9.1. Concentration of credit risk

GRO and TGN 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´s management believes that the risk arising from its concentration of credit is mitigated since all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

TGN provides transportation services mainly to one sole customer. TGN´s management believes that a concentration of credit risk is mitigated since its customer pays on a monthly basis, otherwise service can be suspended until due amounts are collected.

IEnova Marketing sells natural gas and provides transportation services to three customers. IEnova Marketing's management believes that although a potential concentration of credit risk is present, this risk is mitigated since one of its customers is a governmental entity and another is a related party. Additionally, all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

ECA provides LNG storage and regasification services to IEnova Marketing and two other third parties. ECA's management believes that although a concentration of credit risk may exist, this risk is mitigated based on the creditworthiness of its customers and the related party nature of one of its contractual arrangements.

GAP provides transportation services mainly to one sole customer. GAP´s management believes that its credit risk is mitigated since the customers is a governmental entity with high credit rating and pays on a monthly basis.

Following is a table that shows the Company's revenue concentration by customer:

	Segment	12/31/16	12/31/15	12/31/14
Customer 1	Gas	$ 223,882	$ 197,559	$ 242,581
Customer 2 *	Power	-	83,667	138,505
Customer 3	Gas	88,646	89,037	91,625
Customer 4	Gas	101,999	51,683	-
Customer 5	Gas	-	49,138	90,871
Customer 6	Gas	61,416	-	-
Customer 7	Gas	35,838	-	-
Customer 8	Gas	79,389	-	-
Customer 9	Gas	3,594	-	-
Others **		123,130	141,957	175,248
		$ 717,894	$ 613,041	$ 738,830

* Please refer to Note 12.

** Within others, there are no customers with revenue concentration greater than 10% percent.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result, the Company's management does not estimate the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2016, 2015 and 2014, was $190.2 million, $172.2 million and $234.6 million, respectively.

24.10. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Parent's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2016, projects were funded with resources obtained from the Global Offering (Note 1.2.5.), unconsolidated affiliates loans and bank financing. The Company´s current liabilities exceed its current assets mainly due to loan from unconsolidated affiliates and short-term debt. As explained in Note 21, the Company has $724.0 million of unused lines of credits with banks and $368.0 million available approximately under the current authorized CEBURES program at the Mexican Stock Exchange.

24.10.1. Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturity, which is the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
December 31, 2016						
Variable interest rate from banks (SMBC)		$ 442,560	$ -	$ -	$ -	$ 442,560
Variable interest rate of long-term debt (Note 23)	4.14	2,512	57,613	-	-	60,125
Fixed interest rate of long-term debt (Note 23)	6.30	12,055	36,166	24,111	177,769	250,101
Variable interest rate loan from banks (Ventika)	5.59	38,767	75,855	50,570	645,630	810,822
Variable interest rate loan from banks (GdC)	4.63	53,576	44,682	29,788	361,961	490,007
		$ 549,470	$ 214,316	$ 104,469	$1,185,360	$2,053,615
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

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
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

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, 2016					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,212)
	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,212)

	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

24.11. Fair value of financial instruments

24.11.1. Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, 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.

	12/31/16		12/31/15		12/31/14	
	Carrying amount	Fair value	Carrying amount	Fair Value	Carying amount	Fair value
Financial assets						
Financial lease receivables	$ 957,466	$ 995,096	$ 14,510	$ 57,125	$ 14,621	$ 47,640
Financial liabilities						
Financial liabilities held at amortized cost:						
- Loans from banks long-term	790,060	678,649	-	-	-	-
- Short- term debt (not traded in stock change)	493,571	487,252	88,507	90,035	195,089	193,119
- Long-term debt (traded in stock exchange)	249,744	232,812	299,925	289,955	350,638	343,584
- Loans from unconsolidated affiliates (not traded in stock exchange)	248,580	245,255	339,600	334,431	-	-
- Loans from unconsolidated affiliates (not traded in stock exchange)	3,080	3,080	38,460	37,704	38,460	37,207

24.11.2. Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair value of finance lease receivables is determined by calculating the present value of the minimum lease payments, including the contract extension period, using the discount rate that represents the Company's internal rate of return on capital investments.

- The Company determined the fair value of its long-term debt using prices quoted on recognized markets.

- For financial liabilities other than long-term debt, the Company determined the fair value of its financial liabilities carried at amortized cost by determining their present value as of each period end. The risk free interest rate used to discount to present value is adjusted to reflect the Company's own credit risk.

- The fair value of commodity and other derivative positions, which include interest rate swaps, are determined using market participant assumptions to price these derivatives. Market participants' assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

Significant assumptions used by the Company in determining the fair value of the following financial assets and liabilities are set out below.

Finance lease receivables. The fair value of finance lease receivables is estimated to be $995.1 million $57.1 million and $47.6 million as of December 31, 2016, 2015 and 2014 respectively, using the risk-free interest rate adjusted to reflect the Company's own credit risk.

24.11.3. *Fair value measurements recognized in the Consolidated Statements of Financial Position.*

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined in 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:

	12/31/16	12/31/15	12/31/14
Financial assets at FVTPL			
Short-term investments (Level 1)	$ 51,443	$ 20,068	$ 30,020
Derivative financial assets (Level 2)	$ 8,040	$ 1,926	$ 4,709
Financial liabilities at FVTPL			
Derivative financial liabilities (Level 2)	$ 226,161	$ 133,056	$ 107,257

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.

24.11.4. Commodities and other derivative positions

The Company enters into derivative financial instrument agreements to hedge the volatility of its income tax impact attributable to the fluctuation of the Mexican Peso relative to the U.S. Dollar. Certain monetary assets and liabilities of the Company are denominated in U.S. Dollars (functional currency); however, they are remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability.

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 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 MBtu 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.

25. Income taxes

The Company is subject to ISR. The rate of current income is 30%.

25.1. Income taxes recognized in the consolidated statements of profit:

	12/31/16	12/31/15	12/31/14
Current income tax:			
ISR	$ (100,036)	$ (73,704)	$ (69,897)
IETU-IMPAC	-	(226)	-
	(100,036)	(73,930)	(69,897)
Deferred Income tax:			
Deferred income tax	(47,122)	(20,307)	(32,959)
Total taxes in the consolidated statements of profit	$ (147,158)	$ (94,237)	$ (102,856)

Income tax expense is reconciled with the profit before tax as follows:

	12/31/16	12/31/15	12/31/14
Profit before income taxes	$ 971,639	$ 206,904	$ 212,434
Income tax expense calculated at 30%	(291,492)	(62,071)	(63,730)
Effects of foreign exchange rate	38,750	27,340	(2,618)
Non-deductible expenses	(2,456)	(1,368)	(952)
Effect of unused tax losses not recognized as deferred income tax asset	(23)	(22)	(58)
Effects of inflation adjustment	(8,889)	(2,930)	(3,273)
Effect of exchange rate and inflation on the tax bases of property, plant and equipment	(83,055)	(55,188)	(35,273)
Effect of the remeasurement of equity method investment	201,921	-	-
Non-taxable incme	917	328	307
Effects of sale of subsidiary	-	-	3,365
Other	(2,831)	(326)	(624)
Expense for income taxes recognized in the statement of profit	$ (147,158)	$ (94,237)	$ (102,856)

25.2. Income tax recognized directly in common stock and OCI

	12/31/16	12/31/15	12/31/14
Recognized directly in common stock:			
Issuance or ordinary shares under IPO	$ 10,463	$ 7,388	$ 7,388
Recognized directly in OCI:			
Tax on financial instruments valuation held for hedging purposes	(5,393)	4,127	6,528
Total of income tax recognized directly in common stock and OCI	$ 5,070	$ 11,515	$ 13,916

25.3. Deferred income tax assets and liabilities balances

The following is the analysis of deferred income tax assets (liabilities) presented in the Consolidated Statements of Financial Position:

	12/31/16	12/31/15	12/31/14
Deferred income tax assets:			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	$ 251,621	$ 132,973	$ 83,931
Accrued expenses and provisions	28,940	17,182	24,838
Effect of business combination IEnova Gasoductos México	1,550	1,648	1,746
Employee benefits	4,835	4,245	4,106
Asset from dividends not distributed from net income tax account (“CUFIN”, by its initials in Spanish)	-	1,277	14,592
Inventories	3,861	1,839	3,733
Allowance for doubtful accounts	123	171	214
Deferred income tax assets for issuance or ordinary shares under IPO and follow on	17,851	7,388	7,388
Deferred income tax asset regarding financial instruments valuation held for hedging purposes	19,899	8,042	6,061
Others	(1,720)	(631)	638
Total deferred income tax assets	326,960	174,134	147,247
Deconsolidation effect (a)	(250,961)	(95,169)	(61,489)
Deferred income tax asset	$ 75,999	$ 78,965	$ 85,758
Deferred income tax liabilities:			
Property, plant and equipment	$ (340,451)	$ (340,549)	$ (277,756)
Finance leases	(287,240)	(4,353)	(4,386)
Effect of fair value assets and intangible of Ventika	(88,355)	-	-
Prepaid expenses	(11,263)	(4,629)	(5,896)
Other	(13,259)	(6,932)	(5,989)
Total deferred income tax liabilities	(740,568)	(356,463)	(294,027)
Deconsolidation effect (a)	250,961	95,169	61,489
Deferred income tax liabilities	$ (489,607)	$ (261,294)	$ (232,538)

(a) The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and, therefore, they are presented separately in the Consolidated Statement of Financial Position as of December 31, 2016, 2015 and 2014.

25.4. Deferred income tax in the Consolidated Statements of Financial Position

The following is an analysis of the deferred tax assets (liabilities) included in the Consolidated Statements of Financial Position:

	12/31/16	12/31/15	12/31/14
Assets	$ 75,999	$ 78,965	$ 85,758
Liabilities	(489,607)	(261,294)	(232,538)
	$ (413,608)	$ (182,329)	$ (146,780)

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, 2016, are as follows:

Years	Tax-Loss Carryforwards	IMPAC Recoverable
2017	$ 343	$ 36
2018	1,463	36
2019	1,426	170
2020	1,387	170
2021	10,974	170
2022	4,105	170
2023	45,400	170
2024	175,350	170
2025	286,966	170
2026	311,322	170
Thereafter	-	265
	$ 838,736	$ 1,697

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $251,620 and $1,697, respectively.

25.5. Current tax receivable and payable

	12/31/16	12/31/15	12/31/14
Current tax assets:			
ISR receivable	$ 6,390	$ 16,226	$ 34,297
Current tax liabilities:			
ISR payable	$ (13,322)	$ (14,095)	$ (18,022)

26. Stockholders' equity

	12/31/16	12/31/15	12/31/14
Common stock	$ 963,272	$ 762,949	$ 762,949
Additional paid-in equity	2,351,801	973,953	973,953
	$ 3,315,073	$ 1,736,902	$ 1,736,902

26.1. Issued member's equity is comprised as follows:

	For the year ended at December 31, 2015, 2014 (Mexican Pesos)				
Company stockholder's	**Number of social parts**	**Fixed social parts**	**Variable social parts**	**Total**	**Total Social parts**
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 increase was approved at $1.00 Peso per share, which was subscribed and paid by BVXI an unconsolidated affiliate, increasing the value of its social part; also, Company's name change 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. 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:

	Shares		
Shareholders name	**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 (a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova's shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry ("RNV", by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova's shares with the RNV, Semco acquired 100-percent of the Shares of 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 in 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.

26.2. Global Offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global Offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of expense, was approximately $1.56 billion U. S. Dollars. As a result of the Global Offering, the C
ompany raised $30,400 million Mexican pesos, net of issuance costs for $459.3 million Mexican Pesos ($34.8 million U. S. Dollars). Subsequent to the Company's Global Offering, subscribed and paid common stock of IEnova is represented by a total of 1,534,023,812 shares.

		For the year ended December 31, 2016 (Mexican Pesos)			
Company stockholder's	**Number of social parts**	**Fixed social parts**	**Variable social parts**	**Total**	**Total Social parts**
Semco Holdco, S. de R.L. de C. V.	1,019,038,312	50,000	16,009,083,120	16,009,133,120	$ 751,825
Private investors	514,985,500	-	25,931,105,000	25,931,105,000	211,447
	1,534,023,812	50,000	41,940,188,120	41,940,238,120	$ 963,272

27. Declared dividends

During 2016, 2015 and 2014, pursuant to the resolution of Extraordinary Stockholders' Meetings, payments of dividends in cash were approved, to be paid from retained CUFIN balances. Under Mexican tax regulation, dividends paid from CUFIN balances are not taxed, dividends were declared and paid, for the following amounts:

Meeting date	**Amount**
August 9, 2016 (*)	$ 140,000
July 28, 2015	$ 170,000
July 22, 2014	$ 164,000

(*) Dividends were paid on August 9, 2016.

27.1. Dividends per share

	Cents per share for year ended		
	12/31/16	**12/31/15**	**12/31/14**
IEnova	$ 0.11	$ 0.15	$ 0.14

28. Segment information

28.1. 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 Consolidated Statements of Financial Position:

28.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

		Segment revenue	
	12/31/16	**12/31/15**	**12/31/14**
Gas:			
Revenues from customers	$ 610,329	$ 425,618	$ 507,312
Revenues from unconsolidated affiliates	101,998	100,821	90,871
Intersegment sales	182,542	339,850	301,870
Power:			
Revenues from customers	2,930	-	-
Corporate:			
Allocation of professional services with unconsolidated affiliates	2,637	1,766	2,142
Intersegment professional services	29,484	35,527	27,468
	929,920	903,582	929,663
Intersegment adjustment and eliminations	(212,026)	(290,541)	(190,833)
Total segment revenues	$ 717,894	$ 613,041	$ 738,830

		Segment profit	
	12/31/16	**12/31/15**	**12/31/14**
Gas	$ 919,219	$ 185,313	$ 167,331
Power *	(111,749)	(10,626)	22,400
Corporate	(52,480)	(34,498)	(52,797)
Total segment profit	$ 754,990	$ 140,189	$ 136,934

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. 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.

28.3. Assets and liabilities by segment

	12/31/16	12/31/15	12/31/14
Assets by segment:			
Gas	$ 5,716,175	$ 2,916,917	$ 2,684,488
Power	1,241,689	382,763	417,601
Corporate	169,084	207,402	278,129
Consolidated total assets	$ 7,126,948	$ 3,507,082	$ 3,380,218
Liabilities by segment:			
Gas	$ 983,424	$ 346,106	$ 334,572
Power	641,479	66,493	76,076
Corporate	1,151,734	914,619	720,282
Consolidated total liabilities	$ 2,776,637	$ 1,327,218	$ 1,130,930

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 13, and

- All liabilities are allocated to reportable segments.

28.4. Other information by segment

	Property, plant and equipment			Accumulated depreciation		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	$ 3,354,683	$ 2,687,691	$ 2,414,223	$ (424,639)	$ (370,690)	$ (326,875)
Power	677,440	450,665	447,038	(1,807)	(180,461)	(165,795)
Corporate	16,191	15,048	14,165	(7,783)	(6,413)	(5,017)
	$ 4,048,314	$ 3,153,404	$ 2,875,426	$ (434,229)	$ (557,564)	$ (497,686)

	Depreciation and amortization			Additions to property, plant and equipment		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	$ 60,703	$ 50,909	$ 45,403	$ 692,853	$ 308,138	$ 291,424
Power	2,134	45	19	673,808	6,436	70,611
Corporate	1,547	1,516	1,306	1,376	1,072	1,008
	$ 64,384	$ 52,470	$ 46,728	$ 1,368,037	$ 315,646	$ 363,043

	Interest income			Finance (cost) Income		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	$ 959	$ 562	$ 529	$ 23,144	$ 22,856	$ 30,322
Power	1,151	1,451	705	(1,286)	219	1,418
Corporate	4,159	4,688	1,953	(42,694)	(32,934)	(30,361)
	$ 6,269	$ 6,701	$ 3,187	$ (20,836)	$ (9,859)	$ 1,379

	Share of profits (loss) of joint ventures			Income tax (expense) benefit		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	$ 40,284	$ 41,485	$ 24,769	$ (132,952)	$ (99,988)	$ (87,581)
Power	2,557	834	(1,423)	1,077	2,002	(505)
Corporate	-	-	-	(15,283)	3,749	(14,770)
	$ 42,841	$ 42,319	$ 23,346	$ (147,158)	$ (94,237)	$ (102,856)

28.5. Revenue by type of product or services

The following is an analysis of the Company's revenue from its major type of product or services:

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Sale of natural gas	$ 199,126	$ 224,143	$ 368,452
Other operating revenues (a)	157,515	118,315	110,389
Transportation	171,459	95,520	56,915
Storage and regasification capacity	97,168	93,652	93,744
Natural gas distribution	89,722	81,411	109,330
Power generation	2,904	-	-
	$ 717,894	$ 613,041	$ 738,830

Other operating revenues

(a) IEnova Marketing received payments from SLNGI and SLNGIH related to the losses and obligations incurred in the amount of $102.0 million, $101.0 million and $90.8 million for the year ended December 31, 2016, 2015 and 2014, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

29. Interest income

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Interest income:			
Bank investments	$ 1,071	$ 610	$ 648
Unconsolidated affiliates	5,198	6,091	2,539
	$ 6,269	$ 6,701	$ 3,187

The following is an analysis of interest income by category of asset.

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Held-to-maturity investments	$ 1,071	$ 610	$ 648
Loans and receivables (including cash and bank balances)	5,198	6,091	2,539
	$ 6,269	$ 6,701	$ 3,187

30. Operating, administrative and other expenses

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Employee benefits expenses	$ 50,957	$ 42,904	$ 30,856
Purchased materials	5,936	7,484	6,360
Purchased services	38,565	25,195	20,630
Outside services and others	9,296	6,274	20,812
	$ 104,754	$ 81,857	$ 78,658

Outside services and others include charges related to leases of land and buildings with lease terms between five and ten years. Operating lease contracts greater than five years includes review periods of five years to rent.

The Company does not have an option to purchase the leased land at the end of the leasing periods.

31. Other gains and (losses)

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Net foreign exchange losses	$ 6,295	$ (6,709)	$ (5,360)
Gain on sale of equity interest in subsidiary	-	-	18,735
Net (loss) arising on financial liabilities classified as held for trading (a) in 2015 and 2014, respectively	(3,477)	(5,663)	(12,424)
Other (losses) gains	(650)	946	3,108
	$ 2,168	$ (11,426)	$ 4,059

(a) The amount represents a change in fair value arising from the interest-rate swap (see Note 23) and the related settlements.

32. Finance (costs) income, net

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Interest on loans from unconsolidated affiliates	$ (17,268)	$ (3,215)	$ (151)
Decommissioning liabilities accretion expense	(1,431)	(1,354)	(1,099)
Interest of long-term loan	(13,149)	(18,367)	(16,363)
Capitalized interest (a)	14,876	14,881	19,575
Other finance costs	(3,864)	(1,804)	(583)
	$ (20,836)	$ (9,859)	$ 1,379

(a) Please refer to Note 14, for the capitalized interest on qualified assets.

33. Depreciation and amortization

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Depreciation of property, plant and equipment	$ 63,269	$ 51,680	$ 46,184
Amortization of other assets	1,115	790	544
Total depreciation and amortization expense	$ 64,384	$ 52,470	$ 46,728

34. Basic and diluted earnings per share from continued and discontinuing operation

From continuing operation	12/31/16	12/31/15	12/31/14
Basic and diluted earnings per share in U.S. Dollar	$ 0.70	$ 0.13	$ 0.12
From continuing and discontinued operation			
Basic and diluted earnings per share in U.S. Dollar	$ 0.61	$ 0.12	$ 0.12

34.1. Earnings used in the calculation of basic and diluted earnings per share

The earnings and weighted average number of shares used in the calculation of basic and diluted earnings per share are as follows:

	12/31/16	12/31/15	12/31/14
Earnings from continuing operations used in the calculation of basic and diluted earnings per share	$ 867,322	$ 154,986	$ 132,924
Earnings from continuing and discontinued operations used in the calculation of basic and diluted earnings per share	$ 754,990	$ 140,189	$ 136,934
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,235,758,229	1,154,023,812	1,154,023,812

The Company does not have potentially dilutive shares.

35. Commitments

35.1. 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 FTSAs with two clients. Through FTSAs the Company commits to surrender transportation services up to a certain daily amount of natural gas. The FTSAs establish conventional or regulated transportation rates.

c. ECA has a contract to sell 50 percent of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned a portion of its contracted capacity to another independent third party.

d. ECA built a nitrogen facility to provide nitrogen injection services to agreed storage capacity parties. Agreement terms were embedded into the LNG Terminal's FTSAs with same period term of 20 year.

e. GAP entered into a 25 year capacity contract with CFE corresponding to segment Sásabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.

35.2. 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., related party, starting on September 1, 2009. As of May 1, 2011, the contract was assigned JPM. TDM is obligated to buy and JPM is obligated to supply a daily volume, not less than the minimum amount (70,000 MBtu per day) and not more than the maximum amount (105,000 MBtu per day).

   During, 2014, payments under the contract were $119.6 million. The contract ended in September 2014.

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 the land for generating and transmitting electricity using wind turbines. The agreement can be extended for additional 30-years, 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 percent of gross revenues from the sale of electricity for the duration of the agreement.

c. ESJ, 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 is 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 is 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, ESJ will also pay a leasing fee equal to 3 percent of gross revenues from the sale of electricity for the first 20 years, increasing to 4 percent 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 2016, 2015 and 2014, payments under the agreement were $120.0, $1,158.0 and $144.0 respectively. Future contractual cash payments are as follows:

Year	Amounts
2017	$ 120
2018	120
2019	120
Thereafter	2,160
	$ 2,520

d. ESJH and Ejido de Sierra Juarez entered into a land lease agreement under which ESJH acquired rights to use land for generating and transmitting electricity using wind turbines. ESJH is obligated to make quarterly payments of $74.0 during the first 10 years or until the start of commercial operations. In addition, $294.0 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 100 MW, and $71.0 is due at the beginning of excavation for turbine foundations for each additional block of 100 MW. If commercial generation of wind power is successfully developed, ESJH will also pay a leasing fee equal to the greater of $75.0 or 3.5 percent of gross revenues from the sale of electricity for the remainder of the term.

During 2016, 2015 and 2014, payments under the agreements were $308.0, $283.0 and $294.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	$ 294
2018	294
2019	294
Thereafter	294
	$ 1,176

e. The Company leases the building space of its administrative offices in the cities of Tijuana, Mexicali, Chihuahua, Durango, and México City. During 2016, 2015 and 2014, the rent expense amounted to $4,192.0, $2,254.0 and $2,477.0, respectively.

The leases expire in 2016 through 2021 and establish the following future contractual payments:

Years	Amounts
2017	$ 4,460
2018	2,852
Thereafter	1,816
	$ 9,128

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 2016, 2015 and 2014 fixed payments, under the LTSA, were $497.0, $299.0 and $397.0, respectively; variable payments under such LTSA were $6,101.0, $3,838.0 and $5,168.0, respectively.

Future contractual cash payments under the LTSA are as follows:

Years	Amounts
2017	$ 397
2018	397
2019	397
Thereafter	794
	$ 1,985

g. ECA entered into a service agreement with Turbinas Solar, S. A. de C. V. ("Turbinas Solar") which provides extended service and maintenance for five gas turbines. As of April, 2014 Turbinas Solar assigned this agreement to Servicios de Turbinas Solar, S. A. de C. V. The agreement establishes two main types of services: a monthly fee covers operational support and extended product warranty for $124,401.0 and a variable cost based on turbine usage, expensed as incurred, for major turbine maintenance, that will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60 months starting from the date of first beneficial use. During 2013, the Company renegotiated the agreement-terms until 2018.

During 2016, 2015 and 2014, payments under the agreement were $3,599.0, $1,826.0 and $1,560.0, respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	$ 4,800
2018	441
	$ 5,241

h. ECA entered into various technical service and maintenance agreements with third parties. During 2016, 2015 and 2014, payments under such agreements were $11,578.0, $8,965.0 and $5,237.0, respectively. Future contractual cash payments of such commitments are as follows.

Years	Amounts
2017	$ 5,660
2018	1,808
2019	1,200
Thereafter	19,200
	$ 27,868

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. On December 1st, 2016 this contract was assigned to Sempra Gas & Power Managment LLC.

During 2016, 2015 and 2014, payments under the agreement were $5,529.0 and $4,707.0 and $5,004.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	$ 2,296
2018	2,021
	$ 4,317

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 will 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; 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 $250.0. The Company estimates the total cost of the Northwest gas pipeline will be $1.0 billion, approximately, and be completed by August 2016. The capacity of the Northwest gas pipeline is fully contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Northwest gas pipeline, GAP issued 2 irrevocable standby credit letters, for $90.0 million and $65.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until November 30, 2039 and until October 31, 2041, respectively.

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 with a completion date on August, 2015. The contract value was $155.3 million; 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 February 1, 2013, GAP held a contract with Tuberías Procarsa, S. A. de C. V.; the work took place in several stages with a completion date in first quarter of 2016. 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 percent 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, that were paid in full by the Company. 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 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 pays an approximate annual rate of $6.8 million. This agreement has an initial term of five years.

n. 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 $8.3 million, $5.8 million, $7.3 million for 2016, 2015 and 2014, respectively.

o. ECO entered into purchase agreement of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MBtu daily. In 2016, the contract changed from British Petroleum to Ienova Marketing (consolidated affiliate).

p. *Sonora Pipeline.* 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 one will have a length of approximately 505 Km, diameter of 36 inches a transportation capacity of 770 Mmcfd; and the second one, 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 fourth quarter of 2014, approximately; the second segment commenced in September 2013 and was concluded June, 2015. The construction of the second segment will conclude in the second quarter of 2017, approximately.

   The contract price for the construction of the second segment will be $228.0 million until termination.

q. *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 percent 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 Government of the Mexican State of Chihuahua, for a total of $7.9 million of which the Company paid advances of $5.8 and 4.6 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.

r. *San Isidro - Samalayuca.* During 2015, 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 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 State of Chihuahua, for a total of $2.7 million, for such trust agreement, and for which the Company paid advances of $5.5 million and $0.2 million in 2016 and 2015, 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.

- During August 2015, the Company entered into a turnkey contract for the solar turbines of the project. The value is $32.0 million until termination.

s. On January 27, 2016, GAP entered into a contract with Daewoo International Mexico S.A. de C.V., for pipeline supply. The contract price is $21.5 million, divided in $12.5 million for the El Encino project and $9.0 million for the San Isidro - Samalayuca project.

t. On March 18, 2016, GAP entered into a construction contract for a station to measure, regulate and control with Constructora Makro, S.A. de C.V.. The contract price is $22 million for the San Isidro - Samalayuca project.

u. On May 19, 2016, GAP entered into a construction contract with Grupo Desarrollo Infraestructura, S.A. de C.V., for the San Isidro - Samalayuca project. The contract price is $9.0 million.

v. *ESJ.* 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.

w. 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") entered 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.

x. On August 27, 2015 IEnova Marketing entered into a contract with SGEN, for providing natural gas with maximum contract quantity of 8,100 MBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and $0.035/MBtu from September 1, 2015 until August 31, 2018.

y. On August 20, 2015 Ienova Marketing entered into a contract with Igasamex Bajío S. de R.L. de C.V., for providing natural gas with maximum contract quantity of 8,100 MBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and $0.07/MBtu from September 1, 2015 until August 31, 2018.

z. On July 1, 2015 IEnova Marketing entered into a contract with SLNGIH, to transfer 65 percent of profits and losses under the deed of indemnity until August 30, 2029.

Other commitments-

aa. As mentioned in Note 10.1, the Company made capital increase contributions to TAG Holding.

bb. As mentioned in Note 10.2, the Company has signed a bank loan, which is guaranteed by the ESJ project.

New commitments from business combinations, mentioned in Note 11, are shown as follows:

GdC´s commitments-

a. On February 15, 2001, GdC entered with CFE a contract to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for additional five years. The maximum daily capacity covered by this contract is 60 million cubic feet per day.

b. On October 22, 2014, GdC entered into a natural gas transportation services contract, under the TF-1 firm transport service scheme with CFE for a firm base reserved capacity of 100 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

c. On October 22, 2014, GdC entered into an agreement to provide natural gas transmission service under the TI-1 interruptible transport service scheme to CFE for an interruptible capacity of 72 million cubic feet per day with a regulated rate. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

d. On October 31, 2014, GdC entered into a natural gas transportation services contract, under the TI-2 interruptible transport service scheme with CFE for an interruptible capacity of 50 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

e. On September 28, 2016, GdC entered into a fifth natural gas transportation services amending agreement, under the TF-1 firm transport service scheme with PGPB signed on December 11, 2009, for a firm base reserved capacity of 40 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

f. On September 28, 2016, GdC entered into a fifth natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with PGPB signed on December 11, 2009 for an interruptible capacity of 80 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

g. On September 28, 2016, GdC entered the into a fifth natural gas transportation services amending agreement, under the TI-2 interruptible transport service scheme with PGPB signed on December 11, 2009 for a interruptible capacity of 80 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year periods. The agreement is currently in effect with Pemex TRI.

h. On December 16, 2014, GdC entered into a second natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with Energía Chihuahua signed on December 21, 2012 for an interruptible capacity of 80 million cubic feet per day. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

i. GDT executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001, and stipulates a capacity of 1,000, million cubic feet of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations). On January 1, 2016, this agreement was transferred to CENACE.

j. On May 2, 2002, GdT entered into an agreement with PGPB, through which it receives Operation and Maintenance ("O&M") services for natural gas transportation system. This agreement expires 20 years from the computed as the starting date of commercial operation. On January 1, 2016, this agreement was transferred to CENACE.

k. On December 5, 2012, GdT entered into an agreement with PGPB through which it receives compression services based on interruptible by PGPB to GDT, on investment of $4.6 million will be used for the rehabilitation of compression station 19 and PGPB reinstate costs in 75 percent and only paid 25 percent to PGPB. On January 1, 2016 this agreement was transferred to National Center of the Control Natural Gas.

l. On December 15, 2005, TdF entered into a LPG transport service contract with PGPB, under firm base capacity reserved of 4,470 million cubic meters per day equivalent to 30,000 barrels per day. This agreement expires 20 after from the commercial operational date. The agreement is currently in effect with Pemex TRI.

m. On December 15, 2005, TDF entered into an agreement with PGPB, through which it receives O&M services for liquid gas transport system. This agreement expires 20 years after the commercial operational date. The agreement is currently in effect with Pemex Logística.

n. On February 17, 2012, GdC signed a service contract to LPG storage with PGPB. This contract provides base storage capacity reserved of 4,470 cubic meters per day equivalent to 30,000 barrels per day. The contract term is 15 years with a conventional rate, which represents the regulated by the CRE minus 1.2 percent. This contract was given in all rights and obligations, together with all attachments to Transportatora del Norte SH, by signing an amendment agreement dated on June 18, 2012, between GdC, Transportadora del Norte SH and PGPB. The agreement is currently in effect with Pemex TRI.

o. On February 21, 2012, TDN entered into an agreement with PGPB, through which it provides operation and maintenance services for the LPG transportation services. This agreement expires 20 years after the commercial operational date. This agreement is currently in effect with Pemex Logística.

p. On December 13, 2012, GdS 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 for a firm base reserved capacity of: Segment I Cangrejera – Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI – Cangrejera 29,500 BPD, Segment II Nuevo Pemex – Km3 66,000 BPD, Segment II Cactus – Km 3 38,000 BPD, Segment II Km 3 – Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex – Nuevo Pemex 105,600 BPD. The contract is currently in effect with Pemex TRI.

q. On April 16, 2014, GDS entered into an agreement with PGPB, through which it provides operation and maintenance services for the Ethane gas transportation services. This agreement expires in 20.5 years after the first segment commercial operational date. This agreement is currently in effect with Pemex Logística.

r. On July 19, 2013, GdN 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 regulated rate. This contract is under scheme firm transport capacity reserved of 2,100 Mcfd. This contract was transferred to CENACE on January 1, 2016.

s. On December 15, 2014, DEN celebrated an agreement with TAG Pipelines Norte to provide O&M services. This agreement expires in 25 years from the pipeline commercial operations.

t. On January 1, 2016, DEN celebrated an agreement with TAG Pipelines Norte to provide commercial services for a period equal Natural Gas Transport Permit G/335/TRA/2014 in favor of TAG Pipelines Norte, starting from the firm contract date.

Ventika´s commitments-

a. During 2014, Ventika and Ventika II entered into a 10-20 year contract with their customer's shareholders to sell 100-percent of the renewable energy produced from the wind energy project. Such agreement commenced in April 2016 once the Ventika´s started commercial operations.

b. Ventika and Ventika II have acquired the rights to a 20-year land lease agreement to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 20-year term. Ventika and Ventika II expects to pay $205.0 annually for the land lease.

c. On June 3, 2013, Ventika and Ventika II entered into 5-year O&M agreement with Acciona Energia Servicios Mexico, S. de R. L. de C. V. ("Acciona") which commenced after the commissioning of the last wind turbine units, and covers operation, service and maintenance activities. The agreements can be extended by another 20-year term. Payments under the agreement consist of annual fixed fees as follow:

		Annual fixed fees	
Scope	**Currency**	**Ventika**	**Ventika II**
Wind turbine	USD	$ 2,299	$ 2,299
Balance of plant	USD	533	533
Security costs	MXP	7,960	7,960
Environmental works	MXP	3,015	3,015

d. On April 8, 2014, Ventika and Ventika II entered into a 5-year asset management services agreements with Cemex, S. A. B. de C. V. Payments under the agreement consist of an annual fixed fee plus a variable administration commission.

Future expected payments for Ventika and Ventika II are as follows:

Year	**Amounts**
2017	$ 1,337
2018	1,370
2019	468
	$ 3,175

36. Contingencies

36.1. Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de 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:

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 Inmuebles Vista Golf ("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. In September 2016, the Collegiate Court resolved the matter definitively, confirming the decision of the District Judge in favor of ECA.

e. *Municipal claim filed by 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 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 ungrounded.

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

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 as of December 31, 2015 had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.

h. Motion for review against the authorizaiton of environmental impact for ECA's Terminal, filed by Inmuebles Vista Golf. In May 2003, Inmuebles Vista Golf, S.A. de C.V. filed before SEMARNAT a motion for review against the resolution issued by such authority in April 2003, whereby it granted to the Company the authorization of environmental impact for ECA's Terminal. Inmuebles Vista Golf argues that SEMARNAT did not give the necessary notices and did not abide by the applicable proceedings to grant such authorization; that the activities of ECA's Terminal are of industrial nature and, therefore, they do not meet the provisions in the Regional Development Program of the Coastal Corridor Tijuana-Rosarito-Ensenada (known as COCOTREN); and that the conditions and relief measures set forth in the authorization were insufficient. In August 2003, SEMARNAT dismissed such motion and in December 2003 Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against the respective ruling. In April 2005, the TFJFA issued a ruling declaring the nullity of the respective ruling, therefore SEMARNAT continued the motion for review and in July 2006 resolved it confirming the validity and legality of the authorization of environmental impact. In October 2006, Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against SEMARNAT's respective resolution. In December 2010, TFJA confirmed the validity and legality of the resolution through which SEMARNAT confirmed the validity and legality of the authorization of environmental impact. Against TFJFA's resolution, Inmuebles Vista Golf filed a direct constitutional trial before the Collegiate Circuit Court in the Federal District. The constitutional trial was resolved through resolution of April 2012, whereby was granted the protection for the TFJFA to assess all the evidence provided by the parties, specifically the expert evidence in trial. In August 2012, the TFJFA issued a new ruling ratifying once again the validity of the authorization of environmental impact and the sufficiency of the conditions and relief measures to prevent the damages to the environment set forth therein. Inmuebles Vista Golf filed a new constitutional claim against the judgment of August 2012 of the TFJFA, on the other hand, ECA filed an adjacent constitutional claim. In May 2013, the First Chamber of the Supreme Court of Justice of the Nation decided to intervene in the constitutional claim filed by Inmuebles Vista Golf. In a public hearing held on February 7, 2014, the First Chamber of the Supreme Court of Justice of the Nation resolved to "dismiss the constitutional trial and leave the adjacent constitutional claim without subject", therefore the affair is fully concluded in favor of ECA.

i. On September 8, 2016, in the First Collegiate Court of the XV Circuit, unanimously and definitively overruled the resolution previously issued by the Third District Court and Federal Proceedings of Baja California, in connection with the constitutional appeal filed by Sánchez Ritchie in which he challenged the effectiveness of all permits and authorizations related to the construction and operation of the natural liquefied gas storage and regasification terminal property of its subsidiary ECA, located at Ensenada, Baja California. On October 19, 2016 Sanchez Ritchie overruled resolution on the constitutional appeal was ratified by the corresponding authorities, closing this case.

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.

37. 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 Company 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, 2016.

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 an entity provides goods or services to customers at a price or rate that is subject to rate regulation. It permits an entity 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.

Upon application of this amendment, the Company did not have significant impacts.

Amendments to IAS 16 and IAS 38, *Property, Plant and Equipment and Intangible Assets*

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", clarify that "the use of revenue-based methods to calculate the depreciation or amortization of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset." The amendments are effective prospectively for annual reporting periods beginning on or after January 1, 2016, earlier application is permitted.

Upon application of this amendment, the Company did not have significant impacts.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in associates and joint ventures*

Amendments to IAS 28 require that gains and losses resulting from transactions between an entity and its associate or joint venture relate only to assets that do not constitute a business. As well, a new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's Financial Statements. Additionally an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

On the other hand, for consolidated Financial Statements, an exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

Upon application of this amendment, the Company did not have significant impacts.

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 an entity´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".

Upon application of this amendment, the Company did not have significant impacts.

Amendments to IFRS 11, *Joint Arrangements*

Amendments to IFRS 11 "Joint Arrangements", issued in May 2014, require the acquirer of an interest in a joint operation whose activity constitutes a business as defined in IFRS 3 *Business Combinations*, to apply all accounting principles on the basis of the business combinations guidance in IFRS 3 and other IFRSs, except for those who conflict with IFRS 11 guidance. Additionally, they require disclosing information applicable to business combinations and apply to initial acquisition as well as to the acquisition of an additional interest in a joint operation.

These amendments are effective prospectively for annual reporting periods beginning on or after January 1, 2016, earlier application is permitted. The amounts recognized in previous acquisitions of interests in joints operation should not be adjusted.

Upon application of this amendment, the Company did not have significant impacts.

Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception*

The amendments confirm that the exemption from preparing consolidated Financial Statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, the amendments considers that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. On the other hand, they consider that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Finally, an investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

Upon application of this amendment, the Company did not have significant impacts.

Amendments to IAS 1, *Disclosure Initiative*

The amendments include changes regarding materiality, clarifying that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the Financial Statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply. Regarding the statement of financial position and statement of profit and loss and other comprehensive income, the amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. As well, regarding the notes to the Financial Statements, the amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

Upon application of this amendment, the Company did not have significant impacts.

Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle makes amendments to the following standards: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which adds specific guidance for cases in which (1) an entity reclassifies an asset from "held for sale" to "held for distribution" or vice versa and (2) cases in which held-for-distribution accounting is discontinued; IFRS 7 *Financial Instruments: Disclosures* clarifying (1) whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and (2) the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim Financial Statements; IAS 19 *Employee Benefits* indicating that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and IAS 34 *Interim Financial Reporting* clarifying the meaning of 'elsewhere in the interim report' and requires a cross-reference in such reports.

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 16, *Leases* (3)
Amendments to IAS 12, *Income Taxes* (1)
Amendments to IAS 7, *Disclosure Initiative* (1)
Amendments to IFRS 4, *Insurance Contracts* (2)

(1) Effective for annual periods beginning on or after January 1, 2017
(2) Effective for annual periods beginning on or after January 1, 2018
(3) Effective for annual periods beginning on or after January 1, 2019

IFRS 9, *Financial Instruments*

IFRS 9, "Financial Instruments" issued in July 2014, is the replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer ; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

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 is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

Amendments to IAS 12, *Income Taxes*

Amendments to IAS 12 Income Taxes, clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. Additionally, they specify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and when comparing deductible temporary differences with future taxable profits, these exclude tax deductions resulting from the reversal of those deductible temporary differences. These amendments are effective for annual periods beginning on January 1, 2017 with retrospective application, although earlier application is permitted.

The Company is in the process of determining the potential impacts that will derive in its consolidated Financial Statements from the adoption of these amendments.

Amendments to IAS 7, *Disclosure Initiative*

The amendments to IAS 7 Statement of Cash Flows, require that the following changes in liabilities arising from financing activities are disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.
These amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them.

The Company does not expect significant impacts from the adoption of these amendments in its Consolidated Financial Statements.

Amendments to IFRS 4, *Insurance Contracts*

The amendments address concerns about the different effective dates of IFRS 9 and the IASB's forthcoming insurance contracts standard, which is expected to be issued as IFRS 17 in March 2017. The amendments provide two approaches:

(i) Overlay approach — Permits entities that issue insurance contracts within the scope of IFRS 4 to reclassify — from profit or loss to other comprehensive income — some of the income or expenses arising from designated financial assets. An entity would apply the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9.

(ii) Deferral approach — Temporary exemption from applying IFRS 9 for entities whose predominant activity is to issue contracts within the scope of IFRS 4. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

These amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted, and entities are permitted to stop applying either approach before applying the new insurance contracts standard.

38. Events after reporting date

Withdrawal of credit line. On January 12, 2017, regarding the credit line mentioned in Note 23a, the Company withdrew $70.0 million, such credit line to be used for working capital and general corporate purposes.

39. Approval of Financial Statements

The accompanying Consolidated Financial Statements were authorized for issuance on February 21, 2017, 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.

40. Registered offices

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juárez, C.P. 06600
  Mexico, D. F.
- Campos Eliseos No. 345 Piso 4
  Torre Omega
  Col. Chapultepec Polanco C.P. 11550
  Mexico, 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. 21210
  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, Sonora
- Carretera Federal Cuota 15D, KM 461 820,
  San Román Corralillos, CP 45464
  Guadalajara, Jalisco
- Avenida Constitución Poniente No. 444
  Col. Monterrey Centro C. P. 64000
  Monterrey, Nuevo León

* * * * * *

“Pro forma additional information”

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

Pro forma Combined Statements of Financial Position

As December 31, 2015
(In thousands of US dollars)

	As of December 31, 2015					
	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Assets						
Current assets:						
Cash and cash equivalents	$ 40,377	$ 22,080	$ 12,136	$ 205,203		$ 279,796
Short-term investments	20,068	10,780	-	-		30,848
Trade and other receivable, net	53,728	40,376	7,008	-		101,112
Due from unconsolidated affiliates	27,608	-	-	(936)	a	26,672
Income tax receivable	16,226	-	-	-		16,226
Natural gas inventories	4,628	-	-	-		4,628
Derivative financial instruments	1,926	-	-	-		1,926
Value added tax receivable	46,807	4,494	3,437	(107)	a	54,631
Carbon allowances	5,385	-	-	-		5,385
Other assets	8,576	10,513	-	(34)	a	19,055
Total current assets	225,329	88,243	22,581	204,126		540,279
Non-current assets:						
Due from unconsolidated affiliates	111,766	-	-	-		111,766
Finance lease receivables	14,510	952,201	-	-		966,711
Deferred income tax assets	78,965	12,314	7,168	(11,757)	a	86,690
Investment in joint ventures	440,105	131,338	-	(564,682)	a, d	6,761
Goodwill	25,654	-	-	1,626,126	b	1,651,780
Property, plant and equipment, net	2,595,840	320,079	519,901	100,531	a	3,536,351
Carbon allowances	12,975	-	-	-		12,975
Intangible assets	-	-	-	154,144	3b	154,144
Other assets	1,938	1,727	-	-		3,665
Total non-current assets	3,281,753	1,417,659	527,069	1,304,362		6,530,843
Total assets	$ 3,507,082	$ 1,505,902	$ 549,650	$ 1,508,488		$ 7,071,122

	As of December 31, 2015					
	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Liabilities and Stockholders' Equity						
Current liabilities:						
Short-term debt	$ 88,507	$ 35,169	$ 2,141	$ -		$ 125,817
Trade and other payables	43,849	91,056	31,958	(49)	a	166,814
Due to unconsolidated affiliates	352,650	-	6,595	(6,595)	a	352,650
Income tax liabilities	14,095	-	58	-		14,153
Derivative financial instruments	-	7,505	2,624	-		10,129
Other financial liabilities	6,444	-	-	-		6,444
Provisions	1,293	-	-	-		1,293
Other taxes payable	13,881		-	-		13,881
Carbon allowances	5,385	-	-	-		5,385
Other liabilities	17,237	-	-	-		17,237
Total current liabilities	543,341	133,730	43,376	(6,644)		713,803
Non-current liabilities:						
Long-term debt	299,925	359,278	363,330	133,785	a	1,156,318
Due to unconsolidated affiliates	38,460	180,209	98,239	(270,995)	a	45,913
Deferred income tax liabilities	261,294	107,773	-	76,465		445,532
Carbon allowances	12,611	-	-	-		12,611
Provisions	34,236	4,833	-	-		39,069
Derivative financial instruments	133,056	9,151	14,650	-		156,857
Employee benefits	4,295	1,063	-	-		5,358
Total non-current liabilities	783,877	662,307	476,219	(60,745)		1,861,658
Total liabilities	1,327,218	796,037	519,595	(67,389)		2,575,461
Stockholders' Equity:						
Common stock	762,949	88,642	38,914	72,767	c	963,272
Additional paid-in capital	973,953	-	-	1,377,848	c	2,351,801
Accumulated other comprehensive income	(103,944)	(25,331)	(12,091)	31,710	c	(109,656)
Retained earnings	546,906	646,554	3,232	93,552	c	1,290,244
Total equity	2,179,864	709,865	30,055	1,575,877		4,495,661
Total equity and liabilities	$ 3,507,082	$ 1,505,902	$ 549,650	$ 1,508,488		$ 7,071,122

See accompanying notes to the pro forma combined financial statements.

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

Pro forma Combined Statements of Profit

For the year ended December 31, 2015
(In thousands of US dollars)

	For the year ended December 31, 2015					
	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Revenues	$ 613,041	$ 144,358	$ -	$ (3,396)	a	$ 754,003
Finance lease revenue	-	105,066	-	-		105,066
Cost of revenues	(257,226)	(28,677)	-	606	a	(285,297)
Operating, administrative and other expenses	(81,857)	(18,506)	(48)	1,584	a	(98,827)
Depreciation and amortization	(52,470)	(19,354)	-	(7,707)		(79,531)
Interest income	6,701	-	20	(1,539)	a	5,182
Finance (costs) income	(9,859)	(22,525)	279	5,812	a	(26,293)
Other (losses) gain, net	(11,426)	(6,150)	1,413	(46)	a	(16,209)
Remeasurement of equity method investment	-	-	-	762,790	d	762,790
Profit before income tax and share of profits of joint ventures	206,904	154,212	1,664	758,104		1,120,884
Income tax (expense) benefit	(94,237)	(64,307)	3,198	(3,151)	a	(158,497)
Share of profits of joint ventures, net of income tax	42,319	(6,936)	-	(37,907)	a	(2,524)
Profit for the year from continuing operations	$ 154,986	$ 82,969	$ 4,862	$ 717,046		$ 959,863
Loss for the year from discontinued operations, net of income tax	(14,797)	-	-	-		(14,797)
Profit for the year	$ 140,189	$ 82,969	$ 4,862	$ 717,046		$ 945,066

See accompanying notes to the pro forma combined financial statements.

Notes to the Pro Forma Combined Financial Statements

As of December 31, 2015, and for the year ended December 31, 2015
(In thousands of US dollars)

1. Activities

Infraestructura Energética Nova, S. A. B. de C. V. and subsidiaries (collectively, the "Company") are located and incorporated in México. Its parent and ultimate holding company is Sempra Energy (the "Parent"), domiciled and incorporated in the State of California in the United States of America ("U.S."). The address of the Company's registered offices is Paseo de la Reforma No. 342 Piso 24, Torre New York Life, Colonia Juárez, México, Ciudad de México.

The Company operates in the energy sector, develops, owns and operates, or holds interests in, natural gas and propane pipelines and liquefied petroleum gas storage facilities and engages in the transportation and distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Nuevo León and Jalisco, México. It also owns and operates a liquefied natural gas ("LNG") terminal in Baja California, México for importing, storing and regasifying LNG and owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, and hold interests in a joint venture in Baja California, México, using wind resources to serve clients in the U.S.

Description of the GDC Acquisition

The transaction involves the acquisition (the "GDC Acquisition") by IEnova Gasoductos Holding, S. de R. L. de C. V., a subsidiary of the Company, of the remaining equity interest in Gasoductos de Chihuahua, S. de R. L. de C. V. ("GDC") which was held by Pemex Transformación Industrial ("Pemex TRI"). Upon consummation of the GDC Acquisition, the Company hold, indirectly, 100 percent of the equity interests in GDC; provided, however that the Company and Pemex TRI have agreed that the Company, through GDC, and Pemex TRI holded a 50 percent equity interest in GDC's current subsidiary Ductos y Energéticos del Norte, S. de R. L. de C. V. ("DEN"). Through DEN, the Company and Pemex TRI will preserve their energy infrastructure joint venture for the purpose of the construction of the Los Ramones Norte pipeline and the potential development of new projects.

The purchase price for the GDC Acquisition was $1,143.8 million, plus the assumption of indebtedness.

Description of the financing of the GDC Acquisition

The Company financed the GDC Acquisition with the proceeds of a bridge loan obtained from affiliates of the Parent ("the Bridge Loan"). The Company paid the Bridge Loan with the proceeds of the issuance and sale of additional equity securities (the "Bridge Refinancing"); as a result, and because the amount of interest expense de minimis for the periods presented, no debt or interest expense is shown in the Pro Forma Combined Financial Statements in connection with the GDC Acquisition.

Description of the Ventika Acquisition

The transaction involves the acquisition (the "Ventika Acquisition") by Controladora Sierra Juárez, S. de R. L. de C. V., a subsidiary of the Company, of 100 percent of the equity interests of Fisterra Energy Netherlands III, B. V., Fisterra Energy Netherlands, IV B. V., Fisterra Energy Mexico III, S. de R. L. de C. V. and Fisterra Energy Mexico IV, S. de R. L. de C. V., and thereby through such acquisition 100 percent of the equity interests (other than certain shares that have neither voting nor economic rights) of Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika"), from Fisterra Energy, a portfolio company of Blackstone Energy Partners, and minority equity holders, Ventika, S. A. P. I. de C. V. and Ventika II, S. A. P. I. de C. V. own two adjacent wind farms with a total capacity of 252 MW, located in the northeastern state of Nuevo Leon, Mexico, which were acquired by the Company as part of the Ventika Acquisition.

The estimated purchase price for the Ventika Acquisition is $415.0 million, which includes estimated cash and cash equivalents of $40.0 million but does not include the assumption of approximately $477.0 million of indebtedness, in each case generated by the operation of the Ventika wind farm facilities as of the closing date of the Ventika Acquisition. The estimated purchase price was also subject to certain customary post-closing adjustments based upon the actual cash, indebtedness and working capital of the Ventika business at the closing of the Ventika Acquisition set forth in the acquisition agreement. The enterprise value of the Ventika business is approximately $852.0 million.

Description of the financing of the Ventika Acquisition

The Company financed the Ventika Acquisition with both borrowings under its revolving credit facility and the follow on equity offering.

2. Basis for presentation of the Pro forma Combined Financial Statements

The accounting policies applied in the preparation of the pro forma combined financial information comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The pro forma combined statements of financial position and the accompanying pro forma combined statements of profit income have been prepared based on assumptions that the Company's management believes are appropriate in the current circumstances, taking into account the fact that the Company is in the process of determining the fair value of the net assets acquired in the GDC Acquisition and the Ventika Acquisition, as discussed in more detail below.

The pro forma combined financial statements include the pro forma combined statements of financial position as of December 31, 2015 and the pro forma combined statements of profit for the year ended December 31, 2015.

The pro forma combined financial statements present the financial information of the Company as if the GDC Acquisition and the Ventika Acquisition had occurred (i) with respect to the pro forma combined statements of financial position as December 31, 2015, and (ii) with respect to the pro forma combined statements of profit On January 1, 2015.

Accordingly, the accompanying pro forma combined financial information was compiled using the following information:

(1) The annual audited consolidated statement of financial position and profit or loss and other comprehensive income of the Company as of and for the year ended December 31, 2015, prepared in accordance with IFRS.

(2) The annual audited consolidated statement of financial position and profit or loss and other comprehensive income of GDC as of and for the year ended December 31, 2015, prepared in accordance with Accounting Principles Generally Accepted in the United States as reconciled to IFRS.

(3) The annual audited combined statement of financial position and profit or loss and other comprehensive income of Ventika as of and for the year ended December 31, 2015, prepared in accordance with IFRS.

3. Pro forma adjustments

Pro forma adjustments as of December 31, 2015, included in the accompanying pro forma combined statements of financial position, and for the year ended as of December 31, 2015, included in the pro forma combined statements of profit as described below, represent the GDC Acquisition and Ventika Acquisition as well as the expected Bridge Refinancing, the expected offering of the Company's Class II common stock and a draw under the Company's revolving credit facility to fund approximately half of the Ventika Acquisition. No interest expense has been included in the pro forma combined financial statements with respect to the Bridge Loan, as it is expected that the Bridge Refinancing will be made in the near term (and the interest expense related to the Bridge Loan de minimis for the periods presented).

This information is not intended to present the Company's results of operations or its financial position as though the GDC Acquisition and the Ventika Acquisition had occurred on the aforementioned dates, nor is it intended to project the Company's operating results and financial position for any future periods or as of any future dates.

In order to present the effects of the GDC Acquisition and the Ventika Acquisition in the pro forma combined financial statements, management applied certain pro forma adjustments to the historical figures of the acquired companies. The GDC Acquisition and Ventika Acquisition have been completed, the Company recognized both acquisitions as an acquisition of a business, applying the accounting requirements of IFRS 3, *Business Combinations*, to its financial information. The Company will have twelve months from the applicable acquisition date to finalize purchase accounting and thus the values assigned to the acquired net assets in these pro forma combined financial statements are subject to change. The pro forma adjustments reflect the effects of acquisition accounting under IFRS as of the dates previously established and are as follows:

Adjustments to the pro forma combined statements of financial position as of December 31, 2015 and adjustments to the pro forma combined statements of profit for the year ended December 31, 2015:

The pro forma combined statements of financial position as of December 31, 2015 have been adjusted to reflect the preliminary allocation of: (i) the purchase price of the identifiable net assets of GDC and Ventika; (ii) the goodwill recognized as the excess of the consideration transferred in cash in the GDC Acquisition and the Ventika Acquisition as well as the remeasurement to fair value of the previously held 50 percent interest in GDC by the Company; and (iii) the consummation of the Bridge Refinancing. The purchase price allocation in the pro forma combined statements of financial position as of December 31, 2015 is based upon the total consideration detailed below:

The preliminary purchase price allocation presented below has been prepared only for purposes of the pro forma combined financial statements. A complete and final purchase price allocation will be performed once the GDC Acquisition and the Ventika Acquisition are consummated and the Company acquires control over GDC and Ventika.

Preliminary recognized amounts of identifiable assets acquired and liabilities assumed of GDC:

	As of December 31, 2015
Current assets	$ 85,878
Non-current assets, mainly property, plant and equipment, net	1,274,355
Current and long - term liabilities	(542,438)
Total identifiable net assets	817,795
DEN's Stockholders' equity (a)	(27,137)

Goodwill recognized in accordance with the pro forma purchase price allocation	1,497,008
Fair value of previously held interest	(1,143,833)
Total consideration transferred	$ 1,143,833

Preliminary recognized amounts of identifiable assets acquired and liabilities assumed of Ventika:

	As of December 31, 2015
Current assets	$ 22,581
Non-current assets, mainly property, plant and equipment, net	527,069
Current and long - term liabilities	(522,746)
Total identifiable net assets	26,904
Debt cancellation	104,834
Intangible assets (b)	154,144
Goodwill recognized in accordance with the pro forma purchase price allocation	129,118
Total consideration transferred	$ 415,000

The Ventika Acquisition involves assumption of approximately $477.0 million of indebtedness, with the remainder of the indebtedness eliminated as pro forma adjustments.

a. Pursuant to the terms of the GDC acquisition agreement, DEN, a subsidiary of GDC, will not be acquired by the Company. Therefore, the pro forma adjustments exclude the assets and liabilities related to DEN. The Company will retain a 50 percent joint venture investment in DEN after the GDC Acquisition.

DEN statements of financial position and Statements of profit or loss and other comprehensive income are as follows:

Statements of financial position

	As of December 31, 2015
Cash and cash equivalents	$ 1,287
Due from unconsolidated affiliates	936
Value added tax recoverable	107
Other assets	34
Investment in Los Ramones Norte project, joint venture	131,338
Property, plant and equipment, net	209
Deferred income tax assets	11,757
Total assets	145,668
Trade and other payables	49
Due to unconsolidated affiliates	172,756
Total liabilities	172,805

Common stock	200
Accumulated other comprehensive income	(13,907)
Retained earnings	(13,430)
Total Equity	(27,137)

Statements of profit or loss and other comprehensive income

	Year ended December 31, 2015
Revenues	$ 3,396
Cost of revenues	(606)
Operating, administrative and other expenses	(1,584)
Depreciation and amortization	-
Interest income	1,539
Finance costs	(8,989)
Other gains, net	46
Income tax benefit	6,416
Share of profits of joint ventures, net of income tax	(6,936)
Loss for the year	(6,718)
Accumulated other comprehensive loss related to gain on valuation of derivative financial instruments held for hedging purposes	31,754
Accumulated other comprehensive income related to deferred income tax on the gain on valuation of derivative financial instruments held for hedging purposes	(9,526)
Other comprehensive income for the period	22,228
Total comprehensive income for the period	$ 15,510

b. Goodwill and intangible shown in the pro forma combined statements of financial position corresponds to the excess of the consideration transferred from the GDC Acquisition and the Ventika Acquisition, and the remeasurement to fair value of the Company's previously held 50 percent equity interest in GDC over the fair value of the net assets acquired. Net assets acquired are estimated as of December 31, 2015 and are subject to adjustment upon completion of the GDC Acquisition and the Ventika Acquisition and during the subsequent 12-month measurement period permitted by IFRS 3.

c. The effect on stockholders' equity is $1,575,877, for the year indicated below, including the elimination of GDC and Ventika stockholders' equity upon consolidation (but excluding DEN), as follows:

Stockholder's equity	As of December 31, 2015
Capital stock	$ 72,767
Additional paid-in capital	1,377,848
Accumulated other comprehensive income	31,710
Retained earnings	93,552
Total pro forma adjustments	$ 1,575,877

The additional paid-in capital shown above assumes net proceeds from an offering of the Company's

Class II common stock in the amount of $1,578,171.

d. Remeasurement of equity method investment in the GDC Acquisition was estimated as follows:

Item	As of January 1, 2015
Cash paid in acquisition	$ 1,143,833
Less book value of investment in joint venture	(381,043)
Remeasurement gain of equity method investment	$ 762,790

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired entity at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss and other comprehensive income, in accordance with IFRS 3.

* * * * *

21 de febrero de 2017

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2016.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 22 de febrero de 2016, 25 de abril de 2016, el 26 de julio de 2016 y el 25 de octubre de 2016. Se tuvieron reuniones previas con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2016 fueron:

,

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno
(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 21, 2017

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2016.

During the fiscal year in question, the Committee met 4 times, on February 22, 2016 April 25, 2016, on July 26, 2016 and on October 25, 2016. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2016 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor
(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Aprobar los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2015, y primero segundo y tercer trimestre de 2016, presentados al Consejo de Administración,
(iv) Aprobar los planes de auditoria para los años 2016 y 2017,
(v) Aprobar el plan de trabajo y calendario del Comité para 2017,
(vi) Aprobar los reportes presentados por el auditor interno y externo,
(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,
(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,
(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,
(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,
(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía.
(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2015 and the 1^{st}, 2^{nd} and 3^{rd} quarters of 2016, presented to the Board of Directors,
(iv) To approve the audit plans for the years 2016 and 2017,
(v) To approve the committee´s work plan and calendar for 2017,
(vi) To approve the reports presented by the internal and external auditors,
(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,
(viii) The recommendations made by internal audit were implemented,
(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,
(x) There were no relevant accounting policies modified during the year,
(xi) A follow up process was given to the risk management system of the Company,
(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2016 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2016 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

22 de febrero de 2016

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2015.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 24 de febrero de 2015, 21 de abril de 2015, el 28 de julio de 2015 y el 21 de octubre de 2015. Se tuvieron reuniones previas con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2015 fueron:

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 22, 2016

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2015.

During the fiscal year in question, the Committee met 4 times, on February 24, 2015 April 21, 2015, on July 28, 2015 and on October 21, 2015. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2015 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Aprobar los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2014, y primero segundo y tercer trimestre de 2015, presentados al Consejo de Administración,

(iv) Aprobar los planes de auditoria para los años 2015 y 2016,

(v) Aprobar el plan de trabajo y calendario del Comité para 2015,

(vi) Aprobar los reportes presentados por el auditor interno y externo,

(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,

(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía.

(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2014 and the 1st, 2nd and 3rd quarters of 2015, presented to the Board of Directors,

(iv) To approve the audit plans for the years 2015 and 2016,

(v) To approve the committee´s work plan and calendar for 2015,

(vi) To approve the reports presented by the internal and external auditors,

(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(viii) The recommendations made by internal audit were implemented,

(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(x) There were no relevant accounting policies modified during the year,

(xi) A follow up process was given to the risk management system of the Company,

(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2015 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2015 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

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

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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Independent Auditors' Report to the Board of Directors and Members of Gasoductos de Chihuahua, S. de R. L. de C. V.

We have audited the accompanying consolidated financial statements of Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and other comprehensive income, changes in members' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Mexican Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gasoductos de Chihuahua, S. de R. L. de C. V. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with Mexican Financial Reporting Standards.

Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Juan Carlos Reynoso Degollado

February 26, 2016

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2015 and 2014
(In Mexican pesos)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 569,780,181	$ 1,962,141,885
Account receivable	34,240,940	18,554,496
Due from related party	917,114,831	337,258,253
Recoverable taxes, mainly value added tax	23,477,011	1,217,544,671
Other accounts receivable and advance payments	72,062,069	36,916,540
Total current assets	1,616,675,032	3,572,415,845
Pipeline, land right-of-way, equipment and construction in progress – Net	21,781,838,900	15,033,740,065
Investment in joint venture	2,834,310,558	2,118,133,680
Other assets	17,872,788	2,964,346
TAG Norte Holding, S. de R. L. de C. V. – associated entity	-	1,285,174,551
Total	$ 26,250,697,278	$ 22,012,428,487

Liabilities and members' equity

Current liabilities:		
Current portion of long-term debt	$ 617,693,702	$ 475,178,739
Account payable	1,157,202,762	423,242,917
Derivative financial instruments	153,527,091	141,950,035
Direct benefits to employees	27,320,492	15,611,628
Taxes payable and other accounts payable	273,195,266	8,522,367
Total current liabilities	2,228,939,313	1,064,505,686
Long term liabilities:		
Long-term debt	6,229,801,031	6,574,421,494
Derivative financial instruments	141,267,322	105,971,101
PEMEX Logística – related party	148,828,152	103,340,742
Loan from related parties	2,975,966,201	3,649,916,735
Asset retirement obligations	83,120,770	36,675,558
Deferred income taxes	1,515,052,910	946,996,396
Employee benefits	18,109,982	12,993,453
Total liabilities	13,341,085,681	12,494,821,165
Members' equity:		
Social parts	1,123,312,887	1,123,312,887
Retained earnings	8,281,822,774	6,948,264,576
Valuation of derivative financial instruments	(441,583,890)	(291,199,595)
Cumulative translation adjustment	3,946,059,826	1,737,229,454
Total members' equity	12,909,611,597	9,517,607,322
Total	$ 26,250,697,278	$ 22,012,428,487

See accompanying notes to consolidated financial statements

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

	2015	2014
Revenues from transportation service	$ 3,634,763,076	$ 1,915,595,003
Revenues from storage service	230,561,283	211,703,494
Revenues from operation and maintenance	33,999,363	-
Revenues from administrative services	22,292,556	-
Other income	46,560,365	43,910,121
Cost of transportation service	1,169,111,421	569,125,649
Cost of storage service	106,691,687	104,608,181
Cost of operation and maintenance	9,625,044	-
Cost of administrative services	22,010,624	-
Other costs	1,447,616	21,953,945
Gross profit	2,659,290,251	1,475,520,843
Administrative expenses	280,545,218	211,284,170
Operating income	2,378,745,033	1,264,236,673
Comprehensive financing loss cost:		
Interest expense, net	(359,479,199)	(192,398,405)
Allowance for funds used during construction	305,233,738	257,120,160
Foreign exchange loss, net	(151,080,458)	(194,845,708)
	(205,325,919)	(130,123,953)
Equity in income (loss) in joint-venture	346,019,543	(76,936,825)
Income before income taxes	2,519,438,657	1,057,175,895
Income taxes	1,185,880,459	608,778,685
Consolidated net income	1,333,558,198	448,397,210
Other comprehensive income (loss):		
Valuation of financial instruments	(150,384,295)	(291,199,595)
Cumulative translation adjustment	2,208,830,372	1,257,045,127
Consolidated comprehensive income	$ 3,392,004,275	$ 1,414,242,742

See accompanying notes to consolidated financial statements.

Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

	2015	2014
Cash flow from operating activities:		
Income before taxes	$ 2,519,438,657	$ 1,057,175,895
Items related to investing activities:		
Depreciation	814,723,303	269,559,314
Allowance for funds used during construction	(305,233,738)	(257,120,160)
Debt expenses amortization	34,355,291	13,776,129
Interest income	(31,703,982)	(1,885,917)
Equity income in joint venture	(346,019,543)	76,936,825
Asset retirement obligations	36,596,311	-
Asset retirement obligations – amortization	3,317,514	2,163,706
Items related to financing activities:		
Interest expense	353,510,376	185,450,370
	3,078,984,189	1,346,056,162
(Increase) decrease in:		
Accounts receivable	(11,361,489)	43,322,480
Due from related party	(451,500,007)	15,272,360
Recoverable taxes, mainly value added tax	1,293,707,215	(741,846,035)
Other accounts receivable and advance payments	(26,209,103)	(16,648,192)
Other assets	(13,173,131)	10,054,320
Increase (decrease) in:		
Account payable	603,631,297	145,006,280
Direct benefits to employees	8,195,309	6,533,286
Taxes payable and other accounts payable	237,947,316	
Labor obligation	2,581,979	3,558,739
Income taxes	(617,823,945)	(278,905,886)
Net cash provided by operating activities	4,104,979,630	532,403,514
Investing activities:		
Additions to pipeline, land right-of-way, equipment and construction in progress	(4,304,994,526)	(6,608,436,737)
Purchase of pipeline, land right-of-way and equipment	13,148,211	59,205,371
Capital contribution in joint-venture	(56,335,244)	(2,056,272,465)
Loans to join-venture	1,253,922,164	(1,276,305,955)
Interest received to related parties	32,358,257	-
Net cash used in investing activities	(3,061,901,138)	(9,881,809,786)
Excess cash to be applied to financing activities	1,043,078,492	(9,349,406,272)
Financing activities:		
Loan received	527,084,932	7,022,156,803
Loan paid	(1,860,669,397)	(493,932,190)
Loan received from related parties	(1,255,080,733)	3,332,073,420
Interest paid	(229,417,180)	(123,571,782)
Financial contracting cost	-	(203,105,555)
Cash flow hedge	(165,119,417)	(133,571,886)
Net cash provided by (used in) financing activities	(2,983,201,795)	9,400,048,810
Net (decrease) increase in cash and cash equivalents	(1,940,123,303)	50,642,538
Effects from changes in value of cash	547,761,599	451,192,129
Cash and cash equivalents at beginning of the year	1,962,141,885	1,460,307,218
Cash and cash equivalents at end of the year	$ 569,780,181	$ 1,962,141,885

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014
(In Mexican pesos)

1. Activities and significant events

Gasoductos de Chihuahua, S. de R. L. de C. V. (Gasoductos de Chihuahua) is a corporation established under the laws in Mexico and is a 50% investee of PEMEX Transformación Industrial ("Pemex TRI"), a decentralized public agency which, in turn, is a subsidiary of Petróleos Mexicanos. The remaining 50% of the equity is owned by IEnova Gasoductos Holding, S. de R. L. de C. V., a wholly-owned subsidiary of IEnova Gasoductos México, S. de R. L. de C. V. which is a wholly-owned subsidiary of IEnova Energy Holdings (incorporated in the United States of America).

Gasoductos de Chihuahua and subsidiaries (collectively referred to as the "Entity"), receives approximately 95% of its income with subsidiaries of Petróleos Mexicanos (PEMEX) for the years ended December 31, 2015 and 2014; consequently, the accompanying consolidated financial statements are not necessarily indicative of the conditions that would have prevailed or the results of their operations and cash flows the Entity might have had without such affiliation.

The Entity is a limited liability entity, which combines the aspects of a partnership and a corporation. Members are liable only to the extent of their capital contributions, but participatory interests are represented by social parts that are not freely negotiable.

The Entity has the following permissions granted by the CRE, which contain among other things, general conditions for the provision of service, fee schedules, the maximum incomes and the path of the pipeline proposed by the entities who must develop as the program works and investments established in the above-mentioned permits. Accordance with the resolutions of the CRE, there will be a five-year review of the maximum income, considering the investment made by the Entity and, if necessary, adjustments to the level of the new income and rates.

On July 15, 1997, the CRE issued ruling SE/1005/97 granting Gasoductos de Chihuahua permission to transport natural gas under permit number G/016/TRA/97 for a period of 30 years. The permit may be renewed for additional periods of 15 years; also, the ruling authorized Gasoductos de Chihuahua to construct the "Samalayuca Pipeline", which has been operating since 1997. In addition, on October 15, 2001, the CRE issued ruling RES/185/2001, authorizing Gasoductos de Chihuahua to construct the compression station "Gloria a Dios", which was completed and commenced operations during 2001.

On September 12, 2002, the CRE issued ruling RES/177/2002, granting Gasoductos de Tamaulipas permission to transport natural gas under permit number G/128/TRA/2002, for a 30-year period. The permit may be renewed for additional periods of 15 years; also, the ruling authorized Gasoductos de Tamaulipas to construct the "San Fernando Pipeline", which commenced operations during 2003.

On October 6, 2006, the CRE issued ruling RES/280/2006, granting TDF, S. de R.L. de C.V. (TDF), the operating subsidiary of TDN, permission to transport liquid petroleum gas under permit number G/173/LTP/2005, for a 30-year period. The permit may be renewed for additional periods of 15 years; also, the ruling authorized TDF to construct the "Burgos-Monterrey Pipeline", which commenced operations on December 24, 2007.

On February 13, 2012, the CRE issued ruling RES/068/2012, granting TDN, permission to store liquid petroleum gas through a Liquid Petroleum Gas Supply Plant under permit number G/276/LPA/2012, for a 30 year period. The permit may be renewed for additional periods of 15 years.

On April 18, 2013, the CRE issued ruling G/308/TRA/2013, granting TAG Pipelines, S. de R.L. de C.V. (TAG), permission to transport natural gas, on May 23, 2013, under permit number RES/194/2013 transfer from TAG to Gasoductos del Noreste, S. de R.L. de C.V. (GDN), the ruling for a 30 years period beginning on the commercial operation date.

Significant events **-** The following events caused significant changes in the balances and transactions reflected in the consolidated financial statements:

As part of Petroleos Mexicanos actions to increase its operational and financial efficiency established in the business plan announced on July 31, 2015 that, Pemex disinvested its participation in Gasoductos de Chihuahua equivalent to 50% of the share capital through an agreement with IEnova. As a result, IEnova would own 100% of Gasoductos de Chihuahua.

On December 18, 2015, the Federal Competition Commission in Mexico (COFECE) challenged the transaction of the terms in the agreement stated above. Pemex should seek sold by tender, its participation in two of the seven assets of Gasoductos de Chihuahua as a result of previous decisions issued by the former Federal Competition Commission in Mexico. These assets are known as the San Fernando pipeline of GDT and the LPG Pipeline Gas of TDF (the "Conditional Assets"). Consequently, Pemex and IEnova are in the process of restructuring the transaction. It is expected that conditions compliance of restructuring of the transaction and the corresponding notification, carried out during the second quarter of 2016.

On April 28, 2015, it was published in the Official Journal of the Federation the agreement establishing the State Production Company, a subsidiary of Petroleos Mexicanos, known as Pemex – Tansformación Industrial (Pemex TRI). On November 1, 2015, it came into effect, subrogated the rights and obligations of the former subsidiary of Pemex-Gas y Petroquímica Básica (holder of 50% of the share capital of Gasoductos de Chihuahua.)

In accordance with articles one and two of the National Center for Control of Natural Gas (CENAGAS) creating decree, published in the Official Journal of the Federation on August 28, 2014. That organization will be responsible for the management, administration and operation of the National Integrated Natural Gas storage and transportation in the country. As a result of the above, on October 28, 2015, Pemex Gas y Petroquímica Básica (PGPB) transferred the agreement for the Provision of Transportation Services for Integrated Natural for Gasoductos de Tamaulipas, S. de R. L. de C. V and Gasoductos del Noreste, S. de R.L. de C.V. to CENAGAS.

Petróleos Mexicanos (PEMEX) had decrease its credit ratings derived from the drop in oil prices, which conditions have impacted the cash flow and financial indicators more than PEMEX would expected. To date, PEMEX's ratings reflect that there is a certainty that the Mexican government will provide extraordinary, adequate and timely support to PEMEX in the case of financial difficulties.

Gasoductos del Sureste, S. de R.L. de C.V. (Gasoductos del Sureste), has a pipeline transport system of ethane gas which is composed of the following segments: Segment I Nuevo Pemex – Cactus which commenced operations on January 15, 2015, Cactus- Segment II Cactus – Complejo Etileno XXI which commenced operations on July 8, 2015, and Segment III Complejo Etileno XXI- Anillo Etano in Coatzacoalcos area wich commenced operations December 21, 2015.

GDN, built and operates a system of natural transporting pipeline gas, completed the first phase on December 1, 2014, and the second phase became operational on December 1, 2015; its current activities are focused on providing natural gas transportation services, as well as, maintenance and acquiring the operational assets needed to carry out the transportation service.

On March 12, 2014, Ductos y Energéticos del Norte, S. de R.L. de C.V. was incorporated in order to be part of the joint-venture contract Los Ramones II, owning 50% of shares of the entity Tag Norte Holding, S. de R.L. de C.V. (TAG Norte). This Entity is in charge of the natural pipelines gas construction; it consists in 448 km gas pipeline and two compressor stations between the municipality of Ramones, in the state of Nuevo León and San Luis Potosí. The estimated investment will amount 1,421,000 U.S. dollars. In addition the pipeline will provide natural gas transportation service in all the system capacity. The license has a term of 25 years from the date of commercial operation, scheduled for the last quarter of 2015.

On December 2, 2013, Gasoductos Ingeniería, S. de R.L. de C.V. was incorporated; additionally on May 28, 2014, Gasoductos Corporativos, S. de R.L. de C.V. was incorporated. Both are 99.99% subsidiaries of Gasoductos Servicios Sub-Holding, S. de R.L. de C.V. and they are dedicated to providing administrative services.

Energy reforms. On December 20, 2013, the President of the Mexican Republic signed the constitutional decree in energy reform; approved by the Congress and most of the legislature states. With that decree Articles 25, 27 and 28 of the Constitution of the Mexican United States were modified and now allows private investment in the sectors of exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution petroleum products, electricity transmission and distribution. The Entity is evaluating and implementing changes resulting from these new regulations.

2. Basis of presentation

a. ***Explanation for translation into English*** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS"), which are comprised of accounting standards that are individually referred to as *Normas de Información Financiera*, or "NIFs"). Certain accounting practices applied by the Entity that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

b. ***Monetary unit of the consolidated financial statements*** - The consolidated financial statements and notes as of December 31, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

c. ***Consolidation of financial statements*** - The consolidated financial statements include the financial statements of Gasoductos de Chihuahua and those of its subsidiaries over which it exercises control as of December 31, 2015 and 2014 and for the years then ended, shareholding percentage in their capital stock is shown below:

Entity	Ownership Percentage 2015	Ownership Percentage 2014	Activity
Gasoductos de Tamaulipas, S. de R. L. de C. V. (GDT)	99.99%	99.99%	Transportation of natural gas.
Gasoductos Servicios Corporativos y de Administración, S. de R. L. de C. V. (GSCA)	99.99%	99.99%	Provides financial and administrative services to related parties.
Gasoductos Servicios Subholding, S. de R. L. de C. V. and Subsidiaries (GSH) (1)	99.99%	99.99%	Provides financial and administrative services to related parties.
Transportadora del Norte SH, S. de R. L. de C. V. and Subsidiary (TDN) (2)	99.99%	99.99%	Liquid petroleum Gas storage and holding entity of TDF engaged in the transportation of liquid gas Burgos-Monterrey.
Ductos y Energéticos del Sureste, S. de R. L. de C. V. and Subsidiary (DES) (3)	99.99%	99.99%	Holding entity of Gasoductos del Sureste, preoperative stage for the transportation of ethane gas Gas Processing Complex Cangrejera (CPG).
Gasoductos del Noreste, S. de R. L. de C. V. (GDN)	99.99%	99.99%	Natural pipeline gas transportation project.

Entity	Ownership Percentage 2015	Ownership Percentage 2014	Activity
Ductos y Energéticos del Norte, S. de R. L. de C. V. and joint-venture (DEN) (4)	99.99%	99.99%	Holding entity of TAG Norte, preoperative stage for the transportation of natural gas Los Ramones II.

Subsidiaries of sub-holding and joint venture indicated in the above table are as follows:

(1) Gasoductos Ingeniería, S. de R. L. de C. V. and Gasoductos Servicios Corporativos, S. de R. L. de C. V.
(2) TDF, S. de R. L. de C. V.
(3) Gasoductos del Sureste, S. de R. L. de C. V.
(4) TAG Norte Holding, S. de R. L. de C. V.

Significant intercompany balances and transactions have been eliminated. Investment in joint venture is accounted under the equity method.

d. ***Translation of financial statements of foreign subsidiaries*** - To consolidate financial statements of foreign subsidiaries, the accounting policies of the foreign entities are converted to MFRS using the currency in which transactions are recorded. The financial statements are subsequently translated to Mexican pesos using the following methodologies:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the currency in which transactions are recorded to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded under comprehensive financing (cost) income within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. Translation effects are recorded in cumulative translation adjustment within members' equity.

e. ***Comprehensive income*** - Comprehensive income represents changes in stockholders' equity during the year, for concepts other than capital contributions, reductions and distributions, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting results. Other comprehensive income (loss) is represented by the effects of the cumulative translation adjustments of foreign operations and the valuation of derivative financial instruments. Upon realization of assets and settlement of liabilities giving rise to other comprehensive income items, the latter are recognized within results.

f. ***Classification of costs and expenses*** - Costs and expenses are classified according to their function.

g. ***Income from operations*** - Is the result of subtracting cost of transportation service and general expenses from revenues from transportation service. While NIF B-3, *Statement of Income*, does not require inclusion of this line item within results, it has been included for a better understanding of the Entity's economic and financial performance.

3. **Summary of significant accounting policies**

The accompanying consolidated financial statements have been prepared in conformity with MFRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Entity's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Entity are as follows:

i. ***Accounting changes -***

As of January 1, 2015, the Entity adopted the following improvements to NIF 2015:

NIF's that result in accounting changes:

NIF B-8, Consolidated or Combined Financial Statements
Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments

NIF´s that do not result in accounting changes:
NIF B-13, Events Subsequent to the Date of the Financial Statements and Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments
NIF B-15, Conversion of Foreign Currencies
NIF B-8, *Consolidated or Combined Financial Statements*– Clarifies the criteria to be evaluated in order to identify an investment entity and indicates that given the nature of the primary activity of an investment entity, it may be difficult for such an entity to exercise control over the entities in which it has invested; therefore, an analysis should be carried out in order to conclude whether the entity exercises control over its investees.

Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments– Clarifies and modifies the accounting treatment for liabilities arising from customer advances denominated in foreign currency. When an entity receives advance collections for sales or services denominated in foreign currency, the changes in exchange rates between the functional currency and the transaction currency do not affect the amount of the advance collection. Accordingly, the balance of the customer advances liability should not be modified as a result of such changes in exchange rates.

NIF B-13, Events Subsequent to the Date of the Financial Statements and Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments –NIF B-13 includes in a footnote the disclosures in the financial statements of an entity that are not prepared on a going concern basis in accordance with NIF A-7, Presentation and Disclosure. Such requirement was included as part of the regulatory text in the disclosure standards section of NIF B-13, and as part of Bulletin C-9 to disclose the contingencies arising from the fact that the entity is not operating on a going concern basis. Consequently, Circular 57 Sufficient Disclosure is repealed as a result of the Commercial Bankruptcy Law.

NIF B-15, Conversion of Foreign Currencies – The definition of foreign operations was modified to clarify that it not only refers to a legal entity or a cash generating unit whose operations are based on or carried out in an economic environment or currency different from those of the reporting entity, but also includes legal entities or cash generating units that operate in the same country as the reporting entity (parent or holding company), but use a currency different from that of the reporting entity.

At the date of issuance of these consolidated financial statements, the adoption of these improvements did not have a material effect on the Entity's financial information.

ii. ***Recognition of the effects of inflation*** – Cumulative inflation rates over the three-year periods ended December 31, 2015 and 2014 were 10.52% and 12.08%, in each period. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2015 and 2014 were 2.13% and 4.08%, respectively.

Beginning on January 1, 2008, the Entity discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

iii. ***Cash and cash equivalents*** – Cash and cash equivalents consist mainly of bank deposits in checking accounts and daily investments easily convertible into cash, Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in comprehensive financing (cost) income of the period. Cash equivalents are represented mainly for cash in investment funds.

iv. ***Investment in shares of joint venture*** - A joint business is a contractual agreement in which the parties that have joint control over the arrangement have the right to the net assets of the joint business. Joint control is the contractual agreement to share control in a business, which exists when the decisions regarding the relevant activities of the joint business require the unanimous approval of the parties who share control.

The investment in associated companies and joint businesses is adjusted after the initial recognition for the respective portion of comprehensive income or loss of the associated company as well as for the distribution of profits or capital reimbursements of such company. If indicators of impairment are present, the investments in associated companies and joint businesses are subjected to impairment testing.

v. ***Operation regulated*** - As mentioned in Note 1, the activity of Gasoductos de Chihuahua and its subsidiaries, GDT, TDF, TDN and GDN is regulated by the CRE. Consequently, and in accordance with the provisions of NIF A-8, "Supplementary nature", the Entity decided to apply residually Codification ASC 980 "Regulated Operations" (formerly FAS 71) ("ASC 980") of the Financial Accounting Standard Board ("FASB") accounting principles generally accepted in the United States, whereby assets and liabilities resulting from the process of determining regulated rates, which would not be recorded under financial reporting standards applicable to operations are recorded unregulated. In determining rates for CRE, considering the investment budget presented each of the Entities to the controller. The Entity periodically evaluates the applicability of ASC 980 and considers factors such as changes in regulations and the impact of competition. If the cost-based regulation ends or competition increases, the Entity could punish their recorded based on this standard assets.

vi. ***Allowance for funds used during construction (AFUDC)*** - Based on ASC 980 above described. The AFUDC represents the estimated proceeds of debt and equity needed to finance cost construction authorized by the CRE assets. This cost is capitalized as part of the construction cost of the pipeline equipment credited to the income statement. Once construction is completed, the Entity may recover these costs, including performance, when considered on the basis of calculation of rates and the depreciation of the pipeline.

Resolutions issued by the CRE, as discussed in Note 1, shown in one of the considerations that took into account the particular characteristics of the project under the resolutions and that was applied to each project. A weighted average cost of capital ("WACC" for short) or an Internal Rate of Return ("IRR") for determining the tariffs which were adopted in these decisions. The WACC and IRR above consider some financial structure of each project and the cost of both debt and equity. Based on the foregoing, the Company believes that resolutions will provide reasonable assurance regarding the existence of an asset by the financial cost of funds used have been capitalized during construction.

During December 31, 2015 and 2014, GDN capitalized $305,233,738 and $257,120,160, respectively.

Additionally, the Entity capitalizes borrowing costs on financial assets under construction in which resources are used; the capitalized cost as of December 31, 2015 and 2014, amounted to $141,195,396 and $121,534,528, respectively.

vii. ***Construction in progress*** - Construction in progress is recorded at acquisition cost. The Entity capitalized until the date of entry into operation all direct construction costs, and indirect costs, authorized in the resolution and that was considered in determining rates as explained in Note 1, as are the costs of engineering and cost of funds used during construction.

viii. ***Pipeline, land right-of-way and equipment*** - Pipeline, land right-of-way and equipment are recorded at acquisition cost. Balances from acquisitions made through December 31, 2007 were restated for the effects of inflation by applying factors derived from the National Consumer Price Index ("NCPI") through that date. In case of fixed assets of foreign origin acquisitions, cost was updated until that date with inflation in the country of origin and considering the fluctuation of the Mexican peso relative to the currency of that country.

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Percentage of depreciation and amortization
Pipeline and land right-of-way	3.3 to 5
Structures, compression and pumping station	3.3 to 5
Allowance for funds used during construction	3.3 to 5
Measuring and control equipment	6.7
Computer equipment	25.0 to 30
Office furniture and equipment	10
Transportation equipment	25
Leasehold improvements	11
Other assets	3.3 a 5

In accordance with NIF B-15, non-monetary assets reflect the amount of historical pesos at the exchange rate as of December 31, 2015 and 2014.

ix. ***Impairment of long-lived assets in use*** - The Entity reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the aforementioned amounts. Impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than those of previous years, obsolescence, reduction in the demand for the products manufactured, competition and other legal and economic factors. The impairment loss on the value of long-lived assets in use, as well as its reversal, are classified in the same cost and expense line items where the related depreciation or amortization associated with those assets are recognized. During 2015 and 2014, the Entity did not record impairment effects.

x. ***Financial risk management policy*** - The activities of the entity expose it to a variety of financial risks, including market risk (including currency risk and interest rates) credit risk and liquidity risk. The Entity seeks to minimize potential adverse effects of these risks on its financial performance through a comprehensive risk management program. The Entity uses derivative and non-derivative financial instruments to hedge certain exposures to financial risks embedded in the balance sheet. The financial risk management and the use of derivative and non-derivative financial instruments are governed by the policies of the Entity approved by the Board of Managers and are carried through a treasury department.

The Entity manages its credit risk related to its portfolio of derivatives transactions. Celebrating only with recognized, creditworthy counterparties. As of December 31, 2015, the Entity has no credit risk for derivative financial instruments because valuation of mark to market (MTM) derivative financial instruments is a loss for the Entity.

xi. ***Derivative financial instruments*** - The Entity obtains financing under different conditions. When they are at variable rates, in order to reduce their exposure to risks of volatility in interest rates. Financial derivatives contracts denominated interest rate swaps convert the interest payment profile from variable to a fixed rate. The derivative trading is performed only with institutions of recognized solvency and limits have been established for each institution. The policy of the Entity is to not trade for speculative purposes with derivatives.

The Entity recognizes all assets or liabilities that arise from transactions with derivative financial instruments in the balance sheet at fair value regardless of the purpose for holding. Fair value is determined based on recognized market prices as no quoted market prices are determined based on valuation techniques accepted in the financial field.

When derivatives are entered into to hedge risks, and meet all hedging requirements, their designation at the beginning of the hedge is documented, describing the objective, characteristics, accounting treatment and as conducted measurement effectiveness, applicable to that operation.

Derivatives designated as hedging recognize changes in valuation according to the type of coverage involved. The Entity has instruments that cover is cash flow, so that the effective portion is temporarily recognized in comprehensive income and recycled to the income when the hedged item affects; the ineffective portion is recognized immediately in income.

The Entity discontinues hedge accounting when the derivative instrument matures, has been sold, canceled or exercised, when it has not reached highly effective in offsetting changes in fair value or cash flows of the hedged item, or when the company decides to cancel the hedge designation.

On discontinuation of hedge accounting, the amounts have been recorded in equity as an integral part of the profit (or loss), remain in equity until such time that the effects of the forecasted transaction or firm commitment affect the results.

The Entity has fulfilled contracts with embedded derivatives, however, not because the conditions described in the guidelines of Bulletin C-10, *Derivative financial instruments and hedging operations*, they were not separated.

xii. ***Provisions*** - Provisions are recognized when there is a present obligation as a result of a past event, which will probably result in an outflow of economic resources, and can be reasonably estimated.

For the years ended December 31, 2015, and 2014, the value of the provision for removal of pipelines and other equipment amounting $83,120,770 and $36,675,558, respectively.

CSE Provision: Specific Services Contract fond (SSC) is the authorized under the contract maximum operating and maintenance provision. Those contracts with Specific Services were held in connection with the purchase of consumables, spare parts and provision of any service to maintenance subsystem. As of December 31, 2015 and 2014, the effects of this allowance are not significant.

xiii. ***Employee benefits*** - Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by the employee, which include all kinds of remuneration earned as follows:

i. ***Direct employee benefits*** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing (PTU) payable, compensated absences, such as vacation and vacation premiums, and incentives.

ii. ***Employee benefits from termination, retirement and other*** - The liability for seniority premium, pensions, and severance for termination of the employment relationship is recorded as accrued, which is calculated by independent actuaries based on the projected unit credit method using nominal interest rates.

iii. ***Statutory employee profit sharing*** - PTU is recorded in the results of the year in which it is incurred. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

As a result of the *2014 Tax Reform*, as of December 31, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 10 of the Income Tax Law.

xiv. *Income taxes* - Income tax (ISR) are recorded in results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry forwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.

xv. *Foreign currency transactions* - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income and other comprehensive income.

xvi. *Revenue recognition* - Revenue is recognized in the month in which the gas transportation and storage service is provided.

Revenues from administrative services and operation and maintenance are recognized in the period in which the risks and benefits are transferred to the customers, usually it occurs when the services required in compliance with the request.

xvii. *Cost of transportation and storage services recognition* - Cost of transportation and storage services are recognized in the month in which the transportation and storage service is received.

The costs of administrative services and operation and maintainance are recognized in the month in which the service is provided.

4. Cash and cash equivalents

	2015	2014
Cash	$ 382,857,915	$ 1,104,095,204
Cash equivalents– Investment funds	186,922,266	858,046,681
Total	$ 569,780,181	$ 1,962,141,885

On April 14, 2015, Gasoductos de Chihuahua agreed with the banks that it would grant a letter of credit to ensure a restricted cash account; based on the above Transportadora del Norte SH, S. de R. L. de C. V. and Bancomext held a credit agreement in the current guarantee account, in which it requested the issuance of a letter of credit amounting to 30,000,000 US dollars. Such reserve was released on April 17, 2015.

As part of the contract term loan mentioned in note 7, the Entity is required to retain 28,655,726 U.S. dollars equivalent $422,236,391 in Mexican pesos, as restricted cash to guarantee the payments of the loan.

5. Pipeline, land right-of-way, equipment and construction in progress – Net

	December 31, 2015	December 31, 2014	Balances at the beginning of 2014
a) Investment:			
Structures and compression station	$ 8,601,477,199	$ 3,708,687,473	$ 3,255,511,725
Pipeline and land right-of-way	13,302,451,855	6,773,528,333	1,841,386,348
Storage terminal	969,944,560	920,591,394	778,558,595
Allowance for funds used during construction	1,707,926,343	1,166,981,837	783,290,064

	December 31, 2015	December 31, 2014	Balances at the beginning of 2014
Asset retirement provision	71,617,149	29,938,212	26,568,870
Measurement and regulation equipment	211,367,340	9,234,534	8,195,251
Transportation equipment	37,798,392	15,792,485	10,762,822
Office furniture and equipment	17,345,597	16,803,837	16,653,784
Computer equipment	17,073,331	10,877,620	7,600,155
Communication equipment	2,155,025	2,652,529	2,339,538
Leasehold improvements	10,157,050	11,539,405	12,442,368
	24,949,313,841	12,666,627,659	6,743,309,520
b) Accumulated depreciation and amortization:			
Structures and compression station	1,950,295,778	1,359,898,466	1,083,414,760
Pipeline and land right-of-way	1,142,844,627	685,218,876	521,805,035
Storage terminal	93,554,970	39,074,197	-
Allowance for funds used during construction	308,838,224	214,514,047	163,105,224
Asset retirement provision	8,607,108	5,069,408	2,999,265
Measurement and regulation equipment	16,170,246	5,957,329	4,868,956
Transportation equipment	11,343,104	5,711,885	4,368,009
Office furniture and equipment	6,464,658	5,512,669	3,988,764
Computer equipment	5,764,583	7,561,550	4,564,274
Communication equipment	488,533	798,866	472,990
Leasehold improvements	1,475,498	2,946,261	3,152,535
	3,545,847,329	2,332,263,554	1,792,739,812
Construction in progress	-	4,440,183,949	1,765,399,322
Land	104,498,164	79,926,151	63,696,971
Inventory of gas in pipeline	109,387,376	103,697,054	69,738,308
Material and parts	164,486,848	75,568,806	70,400,503
	378,372,388	4,699,375,960	1,969,235,104
Total	$ 21,781,838,900	$ 15,033,740,065	$ 6,919,804,812

Depreciation in 2015 and 2014 that was recognized in results was $814,723,303 and $322,697,774, respectively.

6. Investment in joint-venture

As of December 31, 2015 the investment in joint-venture are as follow:

2015	Stockholders' equity	Carrying amount of participation	% Ownership percentage	Net income	Share in results (1)
Tag Norte Holding, S. de R. L. de C. V.	$5,668,621,116	$2,834,310,558	50	692,039,086	346,019,543

2014	Stockholders' equity	Carrying amount of participation	% Ownership percentage	Net loss	Share in results (1)
Tag Norte Holding, S. de R. L. de C. V.	$4,236,267,360	$2,118,133,680	50	(153,873,650)	(76,936,825)

The investment in associate is valued according to the equity method in the accompanying consolidated financial statements.

(1) In accordance with the shareholder agreement, the Entity owns 50% of voting rights at shareholders' meetings of Tag Norte Holding, S. de R. L. de C. V.

As of December 31, 2015 and 2014, the participation amounts to 106,720,632 and $(199,399,890), net of the effect of $239,298,911 and $122,463,065, in the effects of the comprehensive loss effects.

7. Long term debt and derivative financial instruments

a. As of December 31, the amount of the long term debt is as follows:

	2015	2014
Current portion of long-term debt with BBVA Bancomer, S. A. (1)	$ 617,684,899	$ 472,087,982
Current portion of long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	8,803	3,090,757
Current portion of long-term debt	$ 617,693,702	$ 475,178,739
Long term-debt BBVA Bancomer, S. A. (1)	6,225,549,380	5,808,834,040
Long-term debt with Banco Nacional de Comercio Exterior, S.N.C. (2)	4,251,651	765,587,454
Long term-debt	$ 6,229,801,031	$ 6,574,421,494

(1) **Loan with Bancomer, S. A.**

As of December 31, 2015 and 2014, the credit amounts to 406,710,918 and 439,412,130, U.S. dollars equivalent to $7,052,285,982 and $6,474,649,854 in Mexican pesos, respectively, net of financial cost expenses of 12,056,177 and 13,147,639 U.S. dollars, equivalent to $209,051,698 and $ 193,727,832, respectively, in Mexican pesos.

On December 5, 2013 Gasoductos de Chihuahua signed a credit agreement with BBVA Bancomer, S.A. as agent and Deutsche Bank Mexico, Fiduciary Division, as Fiduciary. The amount of the loan is 475,395,000 US dollars, the proceeds will be used to develop the projects that are in process. The four participating credit institutions are BBVA Bancomer with a 50% contribution, The Bank of Tokyo Mitsubishi with 20%, Mitzuho Bank with 15% and Norddeutsche Landesbank with 15%. The cash disbursements from the credit will occur in three different dispositions: January 15, 2014 for 192,000,000 US dollars, February 14, 2014 for 48,000,000 US dollars and March 10, 2014 for 235,395,000 US dollars. The debt issuance costs of this debt are shown net of the same and amounted to 15,013,537 US dollars.

The loan calls for quarterly amortizations starting on March 18, 2014 and ending in 2026 for a total term of 13 years.

The loan bears an interest at the London Interbank Rate ("LIBOR") plus 2.00% per year until the fifth anniversary, LIBOR plus 2.25% from the fifth to the eight anniversary, LIBOR plus 2.5% from the eighth to twelfth anniversary and LIBOR plus 2.75% from the thirteenth anniversary until its maturity.

In such credit, the Entity was defined as debtor, TDF together with GDT were assigned as guarantors and collaterals through the cession of the collection rights from their portfolio of projects integrated by GDC, TDF and GDT as a source of payment for the credit.

Covenants arising from the credit require the following:

1) Maintain a minimum members' equity during the term of the loan, in the amounts indicated:

	(U.S. Dollars)
Gasoductos de Chihuahua, S. de R. L. de C. V.	450,000,000
Gasoductos de Tamaulipas, S. de R. L. de C. V.	130,000,000
TDF, S. de R. L. de C. V.	90,000,000

2) Maintain an interest coverage of 2.5 to 1 at least on a consolidated basis (EBITDA to interest), for the payment of interest.

At the date of the consolidated financial statements, the Entity complied with these obligations.

Additionally, on January 22, 2014, the Entity was contracted a financial derivative instruments (swaps) with BBVA Bancomer, S.A, the Bank of Tokyo Mitsubishi, Mitzuho Bank and Norddeutsche Landesbank. Its to cover the interest rate risk on its debt total amount. The financial instruments change USD LIBOR for a rate of 2.63%.

The Entity has designated derivative financial instruments mentioned above under the model of cash flow hedges, in terms of what is permitted by the accounting standards. Given that, this interest rate swap, hedge objective is to set the flowing cash derived from interest payments on the syndicated loan maturing in 2026.

The effectiveness of these hedges is assessed quarterly. The results of these tests confirm as of December 31, 2015 hedging relationships are highly effective, since the changes in fair value and cash flows of the hedged item are offset by 100%. The method of measuring the effectiveness is the hypothetical derivative. Which compare the changes in the fair value of the hedging instrument, with the changes in the fair value of the hypothetical derivative that would result in a perfect hedge of the hedged item.

On the date indicated below, the notional amount and the interest rates paid and received by the swap on the line of credit from commercial banks, are described as follow.

Institution	Date of hire	Notional Value U.S. Dollar	Interest rate Receive	Pay	MTM As Of December 31, 2015 U.S. Dollar
BBVA Bancomer	January 22, 2014	237,697,500	US- LIBOR	2.63%	8,500,514
Bank of Tokyo Mitsubishi	January 22, 2014	95,079,000	US- LIBOR	2.63%	3,400,205
Mizuho Bank	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,550,154
Norddeutsche	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,550,154

Institution	Date of hire	Notional Value U.S. Dollar	Interest rate Receive	Pay	MTM As Of December 31, 2014 U.S. Dollar
BBVA Bancomer	January 22, 2014	237,697,500	US- LIBOR	2.63%	8,438,851
Bank of Tokio Mitsubishi	January 22, 2014	95,079,000	US- LIBOR	2.63%	3,385,071
Mizuho Bank	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,542,597
Norddeutsche	January 22, 2014	71,309,250	US- LIBOR	2.63%	2,459,032

Notional value as of December 31, 2015 and 2014 was $7,044,421,273 and $6,468,208,668 Mexican pesos equivalent to 406,257,354 and 438,974,989 U.S. dollars, respectively; it covers the total debt of the credit from commercial banks, and the due date coincides with the covering liabilities.

The fair value of financial instruments is determined based on the market values prevailing at the reporting date. As of December 31, 2015 and 2014, the fair value of the financial instrument was $294,794,413 and $247,921,136 Mexican pesos equivalent 17,001,027 and 16,825,551 U.S. dollars, respectively. This was recorded as a liability under the supplementary account in stockholders' equity, through the effect of the period through the utility integral. The effect as of December 31, 2015 and 2014, was $201,714,285 and $168,736,530 Mexican pesos equivalent 11,633,023 and 11,451,566 U.S. dollars, respectively.

The fair value of interest rate swaps is calculated by adding the present value of the corresponding periodic cash flows.

As of December 31, 2015, the long term debt maturity is as shown below:

	Financial derivative instrument
2016	$ (153,527,091)
2017	(70,995,983)
2018	(36,799,740)
2019	(17,623,217)
2020	(16,394,331)
2021	(3,991,943)
2022	125,726
2023	1,400,839
2024	1,402,871
2025	1,289,777
2026	318,679
Total	$ (294,794,413)

Finally, as of December 31, 2015, the amounts reclassified from equity to income for maturity are the following amounts accrued:

Institution	Interest net
BBVA Bancomer	$ (80,079,860)
Bank of Tokio Mitsubishi	$ (32,031,944)
Mizuho Bank	$ (24,023,958)
Norddeutsche	$ (24,023,958)

(1) **Loan with Banco Nacional de Comercio Exterior, S. N. C.**

As of December 31 2015 and 2014, the credit amount 248,269 and 53,323,580 U.S. dollars equivalent $4,304,931 and $785,712,281 Mexican pesos, respectively, net of financial cost expenses of 2,565 and 1,253,439, equivalent $44,478 and $17,034,070 in Mexican pesos, respectively.

The long term debt with Banco Nacional de Comercio Exterior, S. N. C. has been acquired by the Entity in its subsidiaries Gasoductos del Noreste and Gasoductos del Sureste for the equivalent in Mexican pesos $76,000,000 and $46,200,000 dollars, respectively. Simple loan with Banco Nacional de Comercio Exterior, S.N.C. with a maturity on November 13, 2019 at a rate of TIIE plus 1.6%.

The value added tax in favor amounts are committed to the total amount of the credit line disposed as of December 31, 2015 and 2014, excluding the amount of interest which is paid quarterly.

(2) As of December 31, 2015, the long term debt maturity is as shown below:

2017	$ 687,578,078
2018	720,682,987
2019	682,572,555
2020	731,959,759
Later years	3,407,007,652
	$ 6,229,801,031

8. Employee benefits

Net period cost for obligations resulting from the pension plan and seniority premiums was $8,523,688 and $6,474,473 in 2015 and 2014, respectively. Other disclosures required by accounting standards are not considered material.

The Entity maintains a defined benefit pension plan for all employees, which pays benefits to employees who reach 65 years of age.

This plan also provides seniority premium benefits, which consist of a lump sum payment of 12 days' wage for each year worked, calculated using the most recent salary, not to exceed twice the minimum wage established by law. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

9. Asset retirement obligations

The obligations associated with the retirement of assets are recognized when a contractual or legal obligation exists, and a reasonable estimate of the measurement can be realized. The activities to be performed for removal of the specialized machinery includes: disconnection from the power supply and purge of gas, clogged pipe, keep track of disconnected pipes, etc. As of December 31, 2015 and 2014, Gasoductos de Chihuahua recorded the provisions for the asset retirement obligations based on the Mexican Official Standard NOM-117, as shown below:

	2015	2014
Samalayuca pipeline	$ 5,413,340	$ 4,299,141
Gloria a Dios compression station ("GAD")	6,431,042	5,107,374
San Fernando System	25,147,958	19,971,889
Burgos Monterrey LPG	9,188,347	7,297,154
Guadalajara Storage terminal	3,630,291	-
Los Ramones I	25,608,129	-
Ethane	7,701,663	-
Total	$ 83,120,770	$ 36,675,558

The estimated costs of these obligations have been recorded at present value of future cash flows based on the effective interest method using the appropriate discount rate, a risk-free rate of credit institution. This rate corresponds to 7% and 6% in the Entity. Likewise, we considered the remaining life of the Project as follows: Pipeline Samalayuca 12 years; compressor station GAD 7 years, San Fernando system 18 years, Burgos Monterrey LPG 12 years, Guadalajara Storage terminal 18 years, Los Ramones I 24 years and Ethane 20 years.

10. Members' equity

a. The Entity's capital is represented by 2 social parts, which represents the number of members of the Entity. Such social parts are composed of Series "A" which must represent the fixed portion at all times and Series "B" which must represent the variable portion at all times.

As of December 31, 2015 and 2014, subscribed and paid fixed social parts were $59,771,617 ($41,824,856 at nominal value) and subscribed and paid variable social parts were $1,063,541,270 ($744,273,786 at nominal value).

	Fixed social parts	Variable social parts	Total
Pemex TRI	$ 20,912,428	$ 372,136,893	$ 393,049,321
IEnova Gasoductos Holding, S. de R. L. de C. V.	20,912,428	372,136,893	393,049,321
	$ 41,824,856	$ 744,273,786	$ 786,098,642

b. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of social parts at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2015 and December 31, 2014, the legal reserve amounts to $157,219,728.

c. Members' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon the distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the members' equity tax accounts as of December 31, 2015 and 2014 are:

	2015	2014
Contributed capital account	$ 1,516,033,017	$ 1,484,414,978
Net tax income account (CUFIN)	5,292,113,493	4,841,249,129
Total	$ 6,808,146,510	$ 6,325,664,107

11. Foreign currency balances and transactions

a. As of December, the foreign currency monetary position is as follows:

	2015	2014
U.S. dollars:		
Monetary assets	84,686,968	184,477,556
Monetary liabilities	(682,622,973)	(742,527,935)
Net monetary liability position	(597,936,005)	(558,050,379)
Equivalent in Mexican pesos	$(10,368,090,747)	$ (8,222,760,736)

b. Transactions denominated in foreign currency were as follows:

	(In US dollar) 2015	2014
Transportation revenues	135,338,960	128,005,618
Operation and maitanance revenues	2,083,313	-
Services received	14,057,309	16,501,760
Interest expenses	19,912,068	14,587,632
Allowance for funds used during construction	19,298,438	19,298,438
Interest income	1,582,157	124,139
Other income	676,744	2,449,642

c. Mexican peso exchange rates in effect at the dates of the consolidated balance sheets and at the date of issuance of these consolidated financial statements were as follows:

	December 31, 2015	December 31, 2014	February 26, 2015
US dollar	$ 17.3398	$ 14.7348	$ 18.1680

12. Transactions with related parties

a. Transactions with related parties performed in the normal course of business were as follows::

	2015	2014
Revenues from natural gas transportation (PGPB)	$ 2,530,820,930	$ 1,772,678,907
Revenues from natural gas transportation (PEMEX Transformación Industrial)	$ 502,693,589	$ -
Revenues from natural gas transportation (PEMEX Logística)	$ 422,964,117	$ -
Revenues from storage service (PGPB)	$ 172,916,355	$ 211,703,494
Revenues from storage service (PEMEX Transformación Industrial)	$ 57,644,928	$ -
Revenue administrative service (TAG Pipelines)	$ 22,292,556	$ -
Income from recovery of expenses (PGPB)	$ 2,169,986	$ 4,215,145
Income from recovery of expenses (PEMEX Logística)	$ 2,356,621	$ -
Services received from operation and maintenance (TAG Norte Holding)	$ 33,999,363	$ -
Interest gain Tag Norte Holding (1)	$ 23,270,189	$ 8,868,596
PGPB penalizations	$ 4,754,094	$ -
Services received from operation and maintenance (PGPB)	$ 118,991,711	$ 196,740,613
Services received from operation and maintenance (PEMEX Logística)	$ 41,623,838	$ -
Interest payable Infraestructura Energética Nova (2)	$ 70,888,643	$ 25,278,701
Interest payable TAG Pipelines (3)	$ 58,722,756	$ 20,844,403
Interest payable Mex Gas Supply (4)	$ 11,867,969	$ 4,434,298

b. As of December 31, the balance are as follows:

	2015	2014
PEMEX Transformación Industrial – related party	$ 473,357,603	$ -
PEMEX Logística - related party	427,531,287	-
TAG Pipelines Norte, S. de R. L. de C. V. - related party	16,225,941	-
PEMEX Gas y Petroquímica Básica - related party	-	337,258,253
Total	$ 917,114,831	$ 337,258,253

c. On November 27, 1998, the Entity signed a contract with PGPB whereby receives operation and maintenance services for the system to transport natural gas. This contract stipulated a completion date of April 1, 2009 and could be renewed annually. This contract has been renewed every year with the same conditions.

d. On December 19, 2001, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it provides natural gas transportation services. This agreement expires in 20 years commencing on November 12, 2003 (commercial operational date).

e. On May 2, 2002, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it receives operation and maintenance ("O&M") services. This agreement expires in 20 years from the commercial operational date.

f. On December 15, 2005, TDF entered into an agreement with PGPB, in which it provides liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

g. On December 15, 2005, TDF entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

h. On February 21, 2012, TDN entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

i. On December 13, 2012, GDS entered into an agreement with PGPB, in which it provides services for the Ethane gas transportation services. This agreement expires in 21 years from the commercial operational date.

j. On February 17, 2013, TDN entered into an agreement with PGPB, in which it provides LPG storage services. This agreement expires in 15 years commencing on the beginning of the commercial operational date.

k. On July 19, 2013, GDN entered into an agreement with PGPB, in which it provides natural gas transportation services. This agreement expires in 25 years from the pipeline commercial operational date.

l. On December 19, 2013, the Entity modified the contract entered into on December 11, 2009 to provide natural gas transportation under the TF-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 40 mmcfd. This agreement has a term of one year with automatic annual renews.

m. On December 19, 2013, the Entity modified the contract entered into on December 11, 2009 to provide natural gas transportation under the TI-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 80 mmcfd. The modification includes a regulated rate and has a term of one year with automatic annual renews.

n. On December 19, 2013, the Entity made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TI-2 firm transport service scheme to PGPB for a firm baser. The modification includes a regulated rate and has term of one year with automatic annual renews.

o. On December 15, 2014, DEN celebrates and agreement with TAG Pipeline Norte, to provide O&M services. This agreement expires in 24 years from the pipeline commercial operation.

As of December 31, 2015, the loans balance are as follow:

a. Loans to affiliated parties:

	2015	2014
TAG Norte Holding, S. de R. L. de C. V. (subsidiary) (1)	$ -	$ 1,285,174,551

b. Loans from affiliated parties:

	2015	2014
Infraestructura Energética Nova, S. A. B. de C. V. (2)	$ 1,487,983,101	$ 1,824,958,368
TAG Pipelines, S. de R. L. de C. V. (3)	1,455,629,929	1,182,371,092
Mex Gas Supply, S. L. (4)	32,353,171	642,587,275
Total loans from affiliated parties	$ 2,975,966,201	$ 3,649,916,735

(1) As of December 31, 2014, the loan amount was US $86,618,478 equivalent to $1,276,305,955 Mexican pesos. This loan bear interest at LIBOR plus 465 basis points per month, documented in two promissory notes of US $43,309,239 each, with long maturity. As of December 31, 2014, interest totaled US $601,881 US dollars equivalent to $8,868,596 pesos. On May 15, 2015, the Entity had received full payment of the loan.

(2) As of December 31, 2015 and 2014, the loan amounts USD 80,542,968 and USD 122,039,816 equivalent to $1,375,440,312 and $1,798,232,281 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest amounting to USD 5,270,196 and USD 1,813,807 equivalent to $91,384,153 and $26,726,087 pesos, respectively.

(3) As of December 31, 2015 and 2014, the loan amount is USD 78,730,577 equivalent to $1,365,172,456 and $1,160,079,306 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest amounted USD 5,216,754 and USD 1,512,867 equivalent to $90,457,473 and $22,291,786 pesos, respectively.

(4) As of December 31, 2015 and 2014, the loan amount is USD 1,812,391 and USD 43,309,239 equivalent to $31,426,495 and $638,152,975 pesos, respectively. This loan bear interest at a monthly LIBOR plus 450 basis points. As of December 31, 2015 and 2014, interest totaled USD 53,442 and USD 300,941 equivalent to $926,676 and $4,434,300 pesos, respectively.

13. Other income

	December 31, 2015	December 31, 2014
Tax actualization	$ 34,969,998	$ 5,265,154
Penalizations	6,159,015	-
Reimbursement of PGPB expenses	4,526,607	4,215,145
Income for compression increasing	-	7,044,652
Cash out	-	12,790,921
Insurance recovery	721,259	13,114,730
Other income – Net	183,486	1,479,519
	$ 46,560,365	$ 43,910,121

14. Other costs

	December 31, 2015	December 31, 2014
Cost of sales of fixed assets	$ 571,447	$ 19,839,110
Others	876,169	2,114,835
	$ 1,447,616	$ 21,953,945

15. Income taxes

The Entity is subject to ISR.

ISR - As a result of the new 2014 ISR law (2014Tax Law), the rate is 30% in 2015 and 2014 and it will continue at 30% in 2016 and thereafter.

The Mexican Board for Research and Development of Financial Regulations ("CINIF") issued INIF 20 Financial Effects of the Tax Reform 2015, effective as of December 31, 2014, to provide guidance regarding the accounting recognition of the issues included in the 2015 tax reform.

Income tax is calculated caused based on ISR

	2015		2014	
	ISR Current	Rate %	ISR Current	Rate %
Income before income taxes	$ 2,519,438,657	-	$1,057,175,895	-
Current tax	603,446,041	-	240,217,131	-
Deferred tax	582,434,418	-	368,561,554	-
Total income taxes	1,185,880,459	46%	608,778,685	58%
Effects of inflation	(55,187,093)	(2)%	(27,179,255)	(3)%
Non-deductibles and other	101,903,705	5%	107,284,653	10%
Convertion effect	(519,699,584)	(21)%	(369,026,798)	(35)%
Derivative financial instruments	(1,989,345)	-	(2,060,685)	-
Non-taxable income	44,923,455	2%	(643,831)	-
	$ 755,831,597	30%	$ 317,152,769	30%

a. The components of deferred income tax assets and liabilities were as follows:

	2015	2014
Provisions	$ (63,473,457)	$ (16,682,575)
Liabilities for statutory employee profit sharing ("PTU")	(1,881,256)	(890,852)
Pipelines, land right-of-way, equipment and construction in progress, net	2,548,989,815	1,498,256,579
Insurance	3,137,989	2,641,259
CSE provision	(44,153,908)	(30,761,701)
Operation and maintenance	-	(1,145,103)
Tax loss carryforwards	(888,187,401)	(483,794,161)
Financial contracting cost	49,502,485	51,688,606
Derivative financial instrument	(88,881,357)	(72,315,656)
Total deferred income taxes laibility	$ 1,515,052,910	$ 946,996,396

b. *Carryforwards* – As of December 31, 2015, the Entity has net operating loss carryforwards, which are available to offset future taxable income, and asset tax credits, which are available to offset future income taxes payable, as follows:

Year of expiration	Tax loss carryforwards
2022	$ 39,238,853
2023	234,469,577
2024	1,217,578,807
2025	1,469,337,433
	$ 2,960,624,670

16. Commitments

As of December 31, 2015, the Entity has the following commitments:

a. On November 27, 1998, Gasoductos de Chihuahua entered into an agreement with PGPB, in which it receives operation and maintenance ("O&M") services on the natural gas transportation system. This agreement expires in April 2009 however can be renewed on an annually basis, subsequently, the agreement has been renewed annually.

b. On February 15, 2001, Gasoductos de Chihuahua signed with CFE a contract to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for five years. The maximum daily capacity covered by this contract is 60 million cubic feet (ft3) per day ("mmpcd").

c. Gasoductos de Tamaulipas executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001 and stipulated a daily capacity of 1,000, million cubic ft. of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations).

d. On May 2, 2002, Gasoductos de Tamaulipas entered into an agreement with PGPB, in which it receives O&M services. This agreement expires 20 years from the commercial operational date.

e. On December 15, 2005, TDF signed an LP gas transportation services contract with PGPB. This service is established under the firm transport service scheme, with a daily transportation capacity of 4,470 $mt.^3$, equivalent to 30,000 barrels daily. The contract duration is 20 years with a regulated rate.

f. On December 15, 2005, TDF entered into an agreement with PGPB, in which it receives O&M services. This agreement expires 20 years from the commercial operational date.

g. On February 17, 2012, Gasoductos de Chihuahua signed storage agreement to provide liquid petroleum gas with PGPB under the firm storage service scheme with for a firm baser storage capacity of 2,403.88 tons equivalent to 30,000 barrels per day (BPD). The contract term is 15 years and includes the rate that is regulated by the CRE.

h. On June 18, 2012, a modification to the storage contract was signed, wherein Gasoductos de Chihuahua agreed to cede all the rights and obligations of the storage agreement to Transportadora del Norte SH.

i. On February 21, 2012, TDN entered into an agreement with PGPB, in which it provides operation and maintenance services for the liquid petroleum gas transportation services. This agreement expires in 20 years from the commercial operational date.

j. On December 13, 2012, Gasoductos del Sureste entered into an ethane gas transportation services contract with PGPB. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme with for a firm baser reserved capacity of : Segment I Cangrejera – Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI – Cangrejera 29,500 BPD, Segment Cactus – km 3 38,000 BPD, Segment II km 3 – Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex – Nuevo Pemex 105,600 BPD.

k. In case of delay of the commercial operational date, Gasoductos del Sureste is forced to pay to PGPB a daily penalty as follows: Segment I $7,500 for the first 30 days; $10,000 from day 31 to day 60, $15,000 from day 61 to day 90, $20,000 from day 91 to day 120, $25,000 from day 121 to day 150, $35,000 from day 151 to day 180 and $40,000 from day 181 onwards 67,500.

l. The maximum amount of penalties, from the signing of the contract to the commercial operational date, may not exceed 30,000,000 US dollars.

m. On April 16, 2014, GDS entered into an agreement with PGPB, in which it provides operation and maintenance services for the Ethane gas transportation services. This agreement expires in 20.5 years from the first segment commercial operational date.

n. On July 19, 2013, Gasodcutos del Noreste entered into an agreement to provide natural gas transportation services to PGPB The agreement has a term of 25 years from the date of commercial operation of the system with a conventional rate. It will be constructed in two stages, the date of commercial operation of the pipeline will be December 1, 2015 and the date of commercial operation of the compression system will be during December 2015. Two turbochargers will be added. This contract is under the scheme of firm transportation service basis with a reserved transport MMdpcd 1,000 in the first stage and the second 2,100 MMdpcd capacity.

This contract stipulates that if the system is not operating on the commercial operation date, GDN will pay PGPB daily penalties of $60,822 for every day of delay. The penalties for such delay may not exceed $22,000,000.

o. On December 19, 2013, Gasoductos de Chihuahua made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TF-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 40 mmcfd. The modification includes a regulated rate and is valid for one year with annual automatic renewal. The modification extends the maturity until December 31, 2015.

p. On December 19, 2013, Gasoductos de Chihuahua made a modification to the contract celebrated on December 11, 2009 to provide natural gas transportation under the TI-1 firm transport service scheme to PGPB for a firm baser reserved capacity of 80 mmcfd. The modification includes a regulated rate and is valid for one year with annual automatic renewal. The modification extends the maturity until December 31, 2015.

q. As of December 16, 2014, Gasoductos de Chihuahua celebrated the first modification agreement to the contract celebrated on December 21, 2012, to provide natural gas transportation under the TI-1 firm transport service scheme to Energía Chihuahua. The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

r. On October 22, 2014, Gasoductos de Chihuahua entered into a natural gas transportation services contract, under the TI-1 firm transport service scheme with CFE for a firm baser reserved capacity of 100 million cubic meters per day (mmcfd). The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

s. On October 22, 2014, Gasoductos de Chihuahua entered into an agreement to provide natural gas transmission under the TI-1 firm transport service scheme to CFE for a firm baser reserved capacity of 72 mmcfd. The modification extends the maturity until December 31, 2015, and with automatically renewals for 1 year period.

t. On October 22, 2015, Gasoductos de Chihuahua entered into an agreement to provide natural gas transmission under the TI-2 firm transport service scheme to CFE for a firm baser reserved capacity of 72 mmcfd. The modification extends the maturity until December 31, 2014, and with automatically renewals for 1 year period.

u. On December 15, 2014, DEN celebrates and agreement with TAG Pipelines Norte, to provide O&M services. This agreement expires in 24 years from the pipeline commercial operation.

17. New accounting principles

As of December 31, 2015, the Consejo Mexicano de Información Financiera (CINIF) has issued the following NIFs which may affect the financial statements of the Entity:

a. Effective as of January 1, 2016:

NIF D-3, *Employee Benefits*

b. Effective as of January 1, 2018:

NIF C-2, Investment in financial instruments
NIF C-3, Accounts Receivable
NIF C-9, Provisions, contingencies and commitments
NIF C-16, Impairment of financial instruments receivable
NIF C-19, Financial Instruments payable
NIF C-20, Receivables Financing Instruments
NIF D-1, Customers income contracts
NIF D-2, Customer costs contracts

Improvements to NIF 2016 - The following improvements, which result in accounting changes were issued and are effective January 1, 2016:

NIF C-1, Cash and cash equivalents and NIF B-2, Statement of Cash Flows are modified to consider foreign currency cash and not cash equivalents. It also clarifies that initial valuation and subsequent cash equivalents should be at fair value.

Bulletin C-2, Financial instruments and Document of amendments to Bulletin C-2 –

xviii. The definition of financial instruments available for sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.

xix. Criteria for classifying a financial instrument as available for sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.

xx. The concept of purchase expenses is eliminated and the definition of transaction costs is incorporated.

xxi. The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, Investments in associates, joint ventures and other investments is established that in case of contributions in goods, they should be recognized at fair value which was negotiated between the owners or shareholders, unless they result from the capitalization of a debt, in case, it will be recognized by the capitalized amount.

Bulletin C-10, Derivative Financial Instruments and Hedging -

a) It is stated at the beginning of the coverage, in subsequent periods as the date of the financial statements to the effectiveness of the hedge assessed and must define the method used to measure effectiveness.

b) Clarifies how to designate a primary position.

c) Accounting for the transaction costs of a derivative to be recognized directly in profit or loss for the period at the time of acquisition and not amortized over its modified lifetime.

d) Details of the implicit recognition of derivative financial instruments are made.

The following improvements that do not cause accounting changes were issued:

NIF C-19, Financial Instruments payable (IFP) - clarifications are made with respect to: i) definition of transaction costs ii) amortization recalculation of the transaction costs iii) the entity must show, and support its accounting policy that meets the conditions to designate a financial liability at fair value through profit or loss. iv) disclose the gain or loss given an IFP and the fair value of fixed rate liabilities in a long term. Therefore, it incorporates an appendix support in the effectiveness interest rate calculation.

NIF C-20, Receivables Financing Instruments - changes to refine and clarify a number of concepts for the issuance of new accounting requirements relating to the issue of financial instruments and the final issuance of the International Financial Reporting Standard 9 Financial Instruments are incorporated. Among the major include: transaction costs and amortization, effective interest rate, credit deterioration, foreign currency instruments, debt instruments reclassification between fair value and receivable financing, value of money over time and disclosure qualitative and quantitative.

At the date of issuance of these consolidated financial statements, the Entity has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

18. Authorization to issue the consolidated financial statements

On February 26, 2016, the issuance of the accompanying consolidated financial statements was authorized by Ing. Antonio Hernández Benítez, Chief Financial Officer; and L.C. Silvia Cisneros Vazquez. Accounting VP; consequently, they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Entity's Board of Directors as well as approval at the ordinary shareholders' partners, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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