Annual Report Pursuant to the General Rules for Securities Issuers and Other Market Participants, for the Year Ended December 31, 2013.

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

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

The number of Infraestructura Energética Nova, S.A.B. de C.V. ("the Company") shares in circulation as of December 31, 2013 was 1,154,023,812 ordinary registered shares, single series, without expression of par value, of which 5,000 correspond to the fixed Class I and 1,154,018,812 are Class II variable part.

The Company´s shares are registered in the National Securities Registry *(Registro Nacional de Valores)* of the National Banking and Securities Commission *(Comisión Nacional Bancaria y de Valores, CNBV)* under number 3420-1.00-2013-001 and they are traded in the Mexican Stock Exchange *(Bolsa Mexicana de Valores)* under the **"IENOVA"** trading symbol.

The Company has a single-series Notes Program in place, for the issuance of Stock Exchange Certificates for $ 12,800,000,000.00 pesos, which was authorized by the CNBV by means of registration letter 153/6298/2013. Under said Program, the Company has performed two issues that are in effect and are traded with the **"IENOVA 13"** and **"IENOVA 13-2"** trading symbols.

Registration in the National Securities Registry does not imply a certification of the merit of the securities, the solvency of the issuer, or of the exactness or truthfulness of the information contained in this document, nor does it in any case validate any acts undertaken in violation of the law.

Characteristics of the issues:

"IENOVA 13"

Amount of the Issue: $ 3,900,000,000.00 pesos
Issue Price: $100.00 Mexican pesos each.
Issue Date: February 14, 2013**.**
Expiry Date: February 2, 2023
Life Term of the Issue: up to 3,640 days, equivalent to 20, 182-day periods, approximately 10 years.
Interest Rate and Procedure for Calculation: The fixed annual gross interest rate is 6.30% on the par value of the stock exchange certificates.
Periodicity in Payment of Interest: Ordinary interest accrued shall be paid every 182 natural days in accordance with the payment schedule.

Place and Payment Method of Interest and Principal: Ordinary interest accrued and the principal with respect to the Notes shall be paid by the Issuer, by means of an electronic funds transfer at the domicile of the Indeval, located at Paseo de la Reforma No. 255, third floor, Col. Cuauhtémoc, Del. Cuauhtémoc, C.P. 06500, México, Distrito Federal, against the delivery of the Title itself, or against the surety or certifications for such effect issued by Indeval. The above with the purpose that Indeval may distribute the resources in the accounts their respective depositors instruct it to, and these, in turn, pay the amount owed to the holders.

Amortization of Principal: sole amortization of the principal on the Expiry Date.

Early Redemption of Total of Principal: the issuer shall have the right to redeem early the whole (but not a part) of the Notes, at any date after the fifth anniversary of the Issue Date, before the Expiry Date.

Guarantee: the Notes are Unsecured Bonds, therefore they do not have a specific guarantee.

S&P Rating of the Issue: "mxAAA", which is the highest rating granted by Standard & Poors, S.A. de C.V. in its CaVal scale, and is indicative of the issuer's extremely high ability to satisfy its financial obligations relative to other domestic issuers. The above rating does not constitute an investment recommendation and is subject to revision at any time pursuant to the methodologies employed by Standard & Poor's S.A. de C.V.

Moody's Rating of the Issue: Aaa.mx, which indicates the strongest creditworthiness and least likelihood of suffering a loss relative to other domestic issuers. The above rating does not constitute an investment recommendation and is subject to revision at any time pursuant to the methodologies employed by Moody's de México, S.A. de C.V.

Common Representative: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, Fiduciario.

Depositary: Indeval. Indeval Institución para el Depósito de Valores, S.A. de C.V.

Taxation: the retention rate of Income Tax applicable with respect to interest paid in accordance to the Notes is subject to: (i) in the case of individuals and entities that are deemed Mexican residents for tax purposes, articles 20 and 160 and other applicable provisions of the Mexican Income Tax Law (Ley del Impuesto Sobre la Renta); and (ii) in the case of individuals and entities resident outside the country for fiscal effects, pursuant to 179,

195 and other applicable provisions of the Mexican Income Tax Law. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in our Notes, including the specific rules applicable to them in light of their individual circumstances.

Covenants: until the certificates are redeemed in full, the issuer may not be merged (or consolidate otherwise), except that (i) the company or entity resulting from the merger (or consolidation) expressly assume obligations of the issuer, and (ii) do not occur a case of early termination under the Certificates as a result of such merger or consolidation. The Certificates contain no obligation to do regarding changes or control over the sale or encumbrance of essential assets.

<u>"IENOVA 13-2"</u>

Amount of the Issue: $ 1,300,000,000.00 pesos

Issue Price: $100.00 Mexican pesos each.

Issue Date: February 14, 2013**.**

Expiry Date: February 8, 2018

Life Term of the Issue: up to 1,820 days, equivalent to 65, 28-day periods, approximately 5 years.

Interest Rate and Procedure for Calculation: the Annual Gross Interest Rate shall be calculated by the addition of 0.30 percentage points to the to the 28-day Mexican Interbank Interest Rate (Tasa de Interés Interbancaria de Equilibrio, TIIE). To determine the Annual Gross Interest Rate, the Common Representative shall use the following formula:

$$TC = \left[\left(1 + \frac{TR}{36000} \times PL\right)^{\frac{NDE}{PL}} - 1\right] \times \left[\frac{36000}{NDE}\right]$$

Where:

TC = Capitalized Reference Interest Rate or equivalent to the number of natural days effectively elapsed in the respective Interest Period.

TR = TIIE (or the rate that substitutes it) or the Reference Rate.

PL = Term of the TIIE (or rate that substitutes it) in days.

NDE= Number of natural days effectively elapsed in the respective Interest Period

Periodicity in Payment of Interest: Ordinary interest accrued shall be paid every 28 natural days.

Place and Form of Payment of Interest and Principal: Ordinary interest accrued and the principal with respect to the Stock Exchange Certificates shall be paid by the Issuer, by means of an electronic funds transfer at the domicile of the Indeval, located at Paseo de la Reforma No. 255, third floor, Col. Cuauhtémoc, Del. Cuauhtémoc, C.P. 06500, México, Distrito Federal, against the delivery of the Title itself, or against the surety or certifications for such effect issued by Indeval. The above with the purpose that Indeval may distribute the resources in the accounts their respective depositors instruct it to, and these, in turn, pay the amount owed to the holders.

Amortization of Principal: sole amortization of the principal on the Expiry Date.

Early Redemption of Total of Principal: the issuer shall have the right to redeem early the whole (but not a part) of the Notes, at any date after the third anniversary of the Issue Date, before the Expiry Date.

Guarantee: the Notes are Unsecured Bonds, therefore they do not have a specific guarantee**.**

S&P Rating of the Issue: "mxAAA", which is the highest rating granted by Standard & Poors, S.A. de C.V. in its CaVal scale, and is indicative of the issuer's extremely high ability to satisfy its financial obligations relative to other domestic issuers. The above rating does not constitute an investment recommendation and is subject to revision at any time pursuant to the methodologies employed by Standard & Poor's S.A. de C.V.

Moody's Rating of the Issue: Aaa.mx, which indicates the strongest creditworthiness and least likelihood of suffering a loss relative to other domestic issuers. The above rating does not constitute an investment recommendation and is subject to revision at any time pursuant to the methodologies employed by Moody's de México, S.A. de C.V.

Common Representative: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, Fiduciario;

Depositary: S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.

Taxation: the retention rate of Income Tax applicable with respect to interest paid in accordance to the Notes is subject to: (i) in the case of individuals and entities that are deemed Mexican residents for tax purposes, articles 20 and 160 and other applicable provisions of the Mexican Income Tax Law (Ley del Impuesto Sobre la Renta); and (ii) in the case of individuals and entities resident outside the country for fiscal effects, pursuant to 179, 195 and other applicable provisions of the Mexican Income Tax Law. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in our Notes, including the specific rules applicable to them in light of their individual circumstances.

Covenants: until the certificates are redeemed in full, the issuer may not be merged (or consolidate otherwise), except that (i) the company or entity resulting from the merger (or consolidation) expressly assume obligations of the issuer, and (ii) do not occur a case of early termination under the Certificates as a result of such merger or consolidation. The Certificates contain no obligation to do regarding changes or control over the sale or encumbrance of essential assets.

Table of contents

1. GENERAL INFORMATION 1
   a) Glossary of Defined Terms 1
      Presentation of Information 7
   b) Executive Summary 9
      The Company 9
      Gas Segment 10
      Power Segment 11
      Recent Developments 12
      Relevant Events 12
   c) Risk Factors 14
   d) Other values 31
   e) Significant changes to the rights of securities registered in the NSR 31
   f) Use of resources 32
   g) Public documents 32

2. THE ISSUER 33
   a) The Issuer's History and Evolution 33
   b) Description of the Business 33
      i. Main Activities 33
      ii. Distribution Channels 41
      iii. Patents, Licenses, Trademarks and Other Agreements 43
      iv. Main Customers 43
      v. Applicable Law and Taxation 45
      vi. Human Resources 55
      vii. Environmental Performance 55
      viii. Market Information 57
      ix. Corporate Structure 68
      x. Description of Main Assets 70
      xi. Legal, Administrative and Arbitration Proceedings 70
      xii. Capital Stock 74
      xiii. Dividends 74
      xiv. Foreign Exchange Controls and Other Restrictions that affect the Securities Holders 74

Table of contents

3. FINANCIAL INFORMATION 75
   a) Selected Financial Information 75
   b) Financial Information by Business Segment and Exports 78
   c) Relevant Credits Report 81
   d) Management's Discussion and Analysis of the Results of Operations and the Financial Condition 82
      i) Results of Operations 82
      ii) Financial Situation; Liquidity and Capital Resources 87
      iii) Internal Control 90
   e) Critical Accounting Estimates, Provisions or Reserves 91
4. MANAGEMENT 94
   a) External Auditors 94
   b) Related Party Transactions and Conflicts of Interests 94
   c) Management and Stockholders 101
   d) Bylaws and Other Contracts 108
   e) Other Corporate Governance Practices. 115
5. CAPITAL MARKETS 116
   a) Capital Structure 116
   b) Market Performance of the Shares 117
   c) Market Maker 117
6. UNDERLYING ASSETS 117
7. PERSONS RESPONSIBLE 118
8. ANNEXES 119

1. GENERAL INFORMATION
a) Glossary of Defined Terms

The following terms and abbreviations, as used in this annual report, have the meanings set forth below:

Term	**Definition**
"Aguaprieta Pipeline"	Gasoducto Aguaprieta, S. de R.L. de C.V.
"Article 27 of the Constitution Law"	Regulatory Law of Article 27 of the Constitution in the Petroleum Sector, as it may be amended from time to time.
"Audited Financial Statements"	The Company's consolidated audited financial statements for the fiscal years ended on December 31, 2012 and 2013, including the notes to the same.
"Baja East Pipeline"	In 2013 and for the purposes of the public offerings, Gasoducto Rosarito received the alternative name of Baja East Pipeline for easy identification in presentations to investors.
"Baja West Pipeline"	Transportadora de Gas Natural de Baja California, S. de R.L. de C.V; or TGN. In 2013 and for the purposes of the public offerings, TGN received the alternative name Baja Pipeline West to facilitate its identification in presentations to investors.
"Bl"	Barrels.
"Bld"	Barrels per day.
"BMV"	Mexican Stock Exchange *(Bolsa Mexicana de Valores, S.A.B. de C.V.)*
"Bpcd"	Billions of cubic feet per day.
"Braskem IDESA"	Braskem IDESA, S.A.P.I. de C.V.
"BTMU"	Bank of Tokyo Mitsubishi UFJ, LTD
"BTU"	British Thermal Units.
"CAISO"	California Independent System Operator.
"CEBURES"	Notes *(Certificados Bursátiles)*.
"Certificate"	Certificate for the issuance of CEBURES or shares of stock.
"CFE"	Mexican Federal Electricity Commission *(Comisión Federal de Electricidad)*.
"CNBV"	Mexican National Banking and Securities Commission *(Comisión Nacional Bancaria y de Valores)*.
"COFECE"	Federal Economic Competition Comission, formerly known as Comision Federal de Competencia.
"Company"	Infraestructura Energética Nova, S.A.B. de C.V., jointly with its subsidiaries.
"Controladora Sierra Juárez"	Controladora Sierra Juárez, S. de R.L. de C.V.; subsidiary of the Company through which signe dan agreement with InterGen for the sale of 50% of the outstanding partnership interests in the capital of Energía Sierra Juárez, S. de R.L. de C.V., a subsidiary responsable for deveopment of the first stage of the proposed wind power generation "Energía Sierra Juárez".
"CPI"	Consumer Price Index.
"CRE"	Energy Regulation Commission *(Comisión Reguladora de Energía)*.
"CRE law"	Energy Regulation Commission law.
"Data Protection Law"	Federal Individuals' Personal Data Protection Law, as it may be amended from time to time.
"DFI"	Derivative Financial Instruments
"Dollars or US$"	The official currency of the United States.
"Dth"	Decatherm (10 therms, equivalent to 1,000,000 BTUs).

Term	Definition
"DWR"	California Department of Water Resources.
"EBITDA"	Earnings before interests, taxes, depreciation and amortization.
"Ecogas"	Ecogas México, S. de R.L. de C.V., the Company's natural gas distribution subsidiary.
"Electric Transition Law"	Renewable Energy Use and Energy Transition Financing Law, as it may be amended from time to time.
"Electricity Law"	Public Electricity Service Law, as it may be amended from time to time.
"EMISNET"	Electronic Information Sending and Dissemination System that the CNBV authorized for the BMV, called Stock Issuers Electronic Communication System *(Sistema Electrónico de Comunicación con Emisoras de Valores)*.
"Energia Costa Azul" or "ECA"	Energia Costa Azul, S. de R.L. de C.V. See LNG Terminal.
"Energía Sierra Juárez"	The 155 mw wind farm, in the first phase, located in La Rumorosa, Baja California.
"Energia Sierra Juarez U.S."	Energia Sierra Juarez U.S., LLC, a Sempra Energy subsidiary.
"Ethane Pipeline Project"	Project in development that involves the construction and operation of a 224-km pipeline that will carry ethane from the PEMEX processing facilities located in the states of Tabasco, Chiapas and Veracruz to the ethylene and polyethylene polymerization plant for the Etileno XXI project, located in the state of Veracruz, property of Braskem IDESA.
"Federal Government"	The Federal Government of Mexico.
"FERC"	The U.S. Federal Energy Regulatory Commission.
"FRS"	Financial Reporting Standards, issued by Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.
"Gasoductos de Chihuahua" or joint venture with Pemex Gas	Gasoductos de Chihuahua, S. de R.L. de C.V., the joint venture of the Company with Pemex Gas that operates the San Fernando Pipeline, the Samalayuca Pipeline, the TDF LP Gas Pipeline, the Gloria a Dios Station, the LP Gas Terminal in Guadalajara and other projects under construction: Ethane Pipeline, Los Ramones I Pipeline and Los Ramones Norte Pipeline.
"Gasoducto Los Ramones I" or "Los Ramones I Pipeline"	Pipeline that is part of the joint venture with Pemex Gas, with a length of 114 km, 48 inches in diameter and two compression stations. The system starts at the border of the state of Tamaulipas with the United States and it will interconnect with the Gasoducto Los Ramones Norte and the National Gas Pipeline System in Ramones, Nuevo León.
"Gasoducto Los Ramones II" or "Los Ramones II Pipeline"	In October, 2013, Pemex announced the implementation of the Los Ramones II Pipeline in two segments: Los Ramones Norte and Los Ramones Sur.
"Gasoducto Los Ramones Norte" or "Los Ramones Norte Pipeline"	Pipeline that is part of the joint venture with Pemex Gas, with a length of 441 km, 42 inches in diameter and two compression stations. The system starts at Los Ramones I pipeline in the state of Nuevo Leon and it will interconnect with Los Ramones Sur pipeline in the state of San Luis Potosi. Gasoductos de Chihuahua, our joint venture with Pemex Gas, in association with PEMEX's subsidiaries, will develop Los Ramones Norte pipeline.
"Gasoducto Rosarito" or "Rosarito Pipeline"	Gasoducto Rosarito, S. de R.L. de C.V. Pipeline system composed sections: Rosarito Mainline, Lateral LNG Spur and Yuma; with a total length of 302 km and a compression station with capacity of 30,000 horsepower. The system starts in the valve that connects with the North Baja Pipeline at the border with the United States and concludes at the LNG Terminal, located south of Tijuana. In 2013 and for the purposes of the public offerings, Gasoducto Rosarito received the alternative name of Baja East Pipeline for easy identification in presentations to investors.
"Gazprom"	Gazprom Marketing & Trading México, S. de R.L. de C.V.

Term	Definition
“GDP”	Gross Domestic Product.
“General Distribution Conditions”	General Service Conditions the Distribution of LNG, which are part of the respective permits.
“General Storage Conditions”	General Service Conditions of LNG Storage, or the General Service Conditions of LP Gas Storage (as may be the case), which are part of the respective permits.
“Global Offer”	The joint offer of the National Offer and the International Offer.
“Gloria a Dios Station”	Compression station that is part of the joint venture with Pemex Gas. It has 14,340 horsepower, and it is located at the interconnection point of the Samalayuca Pipeline and the Ciudad Juárez-Chihuahua pipeline belonging to Pemex Gas, in the town of Gloria a Dios, Chihuahua.
“Guaymas-El Oro Pipeline”	Pipeline that is part of the Sonora Pipeline that will cross the states of Sonora and Sinaloa, and which will have a capacity of 510 mpcd (5.3 mthd).
“GW”	Gigawatts.
“GWh”	Gigawatts-hour.
“IASB”	International Accounting Standards Board.
“IEnova Gasoductos Mexico”	IEnova Gasoductos Mexico, S. de R.L., formerly Sempra Gasoductos México, S. de R.L. de C.V., the subsidiary that operates the Gasoducto Aguaprieta and Estación Naco and holder of the Company's participation in Gasoductos de Chihuahua, S. de R.L. de C.V.
“IEP”	Independent energy producer(s).
“IETU”	Single Rate Business flat Tax.
“IFRS”	International Financial Reporting Standards issued by the IASB.
“Indeval”	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.
“indirect stockholder who exerts control of the Company”	Sempra Energy.
“Insig” or “n.s.”	Insignificant.
“InterGen”	InterGen and/or its affiliates Energía Azteca X, S. de R.L. de C.V. and/or Energía de Baja California, S. de R.L. de C.V.
“ISR”	Income tax.
“Issuer”	Infraestructura Energética Nova, S.A.B. de C.V.
“Issuers Sole Circular” or “Provisions”	General provisions applicable to stock issuers and other players in the stock market, issued by the CNBV and published in the Federal Official Gazette on March 19, 2003, including all their amendments to the date of this document.
“JPM Ventures Energy”	JPM Ventures Energy México, S. de R.L. de C.V., a J.P Morgan affiliate.
“km”	Kilometers.
“kWh”	Kilowatts-hour.
“LGSM”	Ley General de Sociedades Mercantiles, General Corporation and Partnership Law, as it may be amended from time to time.
“LIBOR”	London Interbank Offered Rate.
“LMV”	Spanish acronym of Securities Market Law, as it may be amended from time to time.
“LNG”	Liquefied natural gas.
“LNG International”	Sempra LNG International LLC.
“LNG Marketing”	Sempra LNG Marketing México, S. de R.L. de C.V.

Term	Definition
“LNG Terminal”	A LNG storage terminal located in Ensenada, Baja California that has a storage capacity of 320,000 cubic meters or m^3 (73.3 MMTh) in two 160,000 m^3 (36.6 MMTh) tanks each.
“LP Gas” or “LPG”	Liquefied Petroleum Gas.
“LP Gas Regulations”	Liquefied Petroleum Gas Regulations.
“m^3”	Cubic meters.
“México”	United Mexican States.
“MMBTU’s”	Millions of British Thermal Units
“MMcf”	Millions of cubic feet.
“MMcfd”	Millions of cubic feet a day.
“MMThd”	Millions of therms a day.
“Mth”	Millions of therms.
“MW”	Megawatts.
“Naco Station”	Compression station with 14,340 horsepower, located in the PEMEX’s Naco-Hermosillo pipeline system, in Naco, Sonora.
“NAFTA”	North American Free Trade Agreement.
“NGR”	Natural Gas Regulations.
“NGS”	National Gas Pipeline System.
“NOM”	Spanish acronym for Mexican Official Standard(s).
“NSR”	National Securities Registry.
“PEMEX”	Petróleos Mexicanos.
“Pemex Gas”	Pemex Gas y Petroquímica Básica.
“Pesos”, “M.N.” o “MXN$”	Pesos, the national currency of Mexico.
“Political Constitution”	The Political Constitution of the United Mexican States.
“PROFEPA”	Procuraduría Federal de Protección al Ambiente, Federal Environment Protection Agency.
“PUHCA”	Public Utility Holding Company Act of 2005 of the United States.
“Rate of Exchange of the Bank of Mexico”	The Peso/Dollar rate of exchange published by the Banco de México in the Federal Official Gazette at a certain date.
“RGDI”	Reception, guard and delivery installations.
“Sásabe - Puerto Libertad - Guaymas Pipeline”	Pipeline that is part of the Sonora Pipeline, located in the state of Sonora, which will have a capacity of 770 mpcd (8.0 mthd) and is under construction.
“SCT”	Communications and Transportation Ministry *(Secretaría de Comunicaciones y Transportes)*.
“SDG&E”	San Diego Gas & Electric Company, a Sempra Energy affiliate.
“SEMARNAT”	Spanish acronym of Environment and Natural Resources Ministry *(Secretaría del Medio Ambiente y Recursos Naturales)*.
“Sempra Energy”	Sempra Energy, the Company's indirect controlling shareholder, a corporation incorporated under the laws of the state of California, U.S.A.
“Sempra Generation”	A Sempra Energy affiliate, incorporated under the laws of the state of California, U.S.A.
“Sempra Natural Gas”	A business operating division of Sempra Energy that includes the United States affiliates of the Company that sell LNG and buy and/or sell natural gas and electricity to/from the latter.

Term	Definition
“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.
“SENER”	Spanish acronym of the Energy Ministry *(Secretaría de Energía)*.
“Shares”	Common stock, Single Series, registered shares, without par value expression, representative of the variable part of the capital stock of Infraestructura Energética Nova, S.A.B. de C.V.,
“Shell”	Shell México Gas Natural, S. de R.L. de C.V.
“Sonora Pipeline”	The Sásabe-Puerto Libertad-Guaymas Pipeline and the Guaymas-El Oro Pipeline, which were put out to tender and won in October, 2012, and which interconnect with each other, and are under construction.
“TAG Norte”	TAG Norte, S. de R.L. de C.V. is the Company that will develop Gasoducto Los Ramones Norte. Indirect participation of Pemex Gas with 50% and indirect participation and Gasoductos de Chihuahua with 50%.
“TAG Pipelines”	TAG Pipelines, S. de R.L. de C.V. 100% participation (indirect) of Pemex Gas.
“TDF LP Gas Duct”	System that is part of the joint venture with Pemex Gas, formed by approximately 190 km of 12-inch diameter ducts, with an average daily capacity of 30,000 bld (1.6 mthd) of LP Gas. It stretches from the production area of the Pemex Gas Burgos LP Gas plant in the state of Tamaulipas to the delivery system located in the outskirts of Monterrey, Nuevo León.
“TGN” or “Transportadora de Gas Natural de Baja California”	Transportadora de Gas Natural de Baja California, S. de R.L. de C.V. or TGN received the alternative name of Baja West Pipeline in 2013, for the public offering easy identification in investors’ presentations. TGN transports natural gas to the plant President Juarez CFE industrial clients in the areas of Tijuana and Rosarito. Composed of approximaterly 45 km of pipeline, 30 inches in diameter with a capacity of 940 mmcfd (9.8 mthd). This system interfaces with the Gasoducto Rosarito, near Tijuana, and extends northward to interface with the pipeline system SDG&E in Otay Mesa, located at the north of the border crossing with the United States; southwest direction and takes on the ground to connect to the CFE President Juarezin Rosarito, Baja California. TGN includes a compressor station with a total installed capacity of 8,000 horsepower, located in Rosarito, Baja California.
“Terminal de Gas LP de Guadalajara”	A LP Gas storage terminal located in Guadalajara with a total storage capacity of 80,000 bl (4.4 mth) of LP Gas.
“Termoeléctrica de Mexicali”	Termoeléctrica de Mexicali, S. de R.L. de C.V. or when demanded by the context, the electricity operating plant operated by said corporation.
“TIIE”	Mexican Interbank Equilibrium Rate (Tasa de Interés Interbancaria de Equilibrio).
“TJFA”	The Federal Fiscal and Administrative Court of Justice *(Tribunal Federal de Justicia Fiscal y Administrativa).*
“Transportation General Terms and Conditions”	The transportation general terms and conditions are approved and registered with the CRE.
“UDI” or “UDIS”	The account unit called Investment Unit *(Unidad de Inversión)* with value in Pesos published periodically by the Bank of Mexico in the Federal Official Gazette and which in general terms reflects the increases suffered by the CPI.
“United States” or “U.S.A”	The United States of America.
“VAT”	Value-Added Tax.

Term	Definition
“Vestas”	Vestas WTG Mexico, S.A. de C.V.
“WECC”	Western Electricity Coordinating Council of the United States.

Presentation of Information

Financial Statements

Our functional currency is the U.S. dollar, other than with respect to Ecogas, for which our functional currency is the Mexican peso, and our reporting currency is the U.S. dollar. For the purposes of presenting consolidated and/or combined financial statements, the assets and liabilities of our subsidiaries with Mexican peso functional currency are translated into U.S. dollars using the Rate of exchange as of the end of each reporting period. Income and expense items are translated at the exchange rates at the dates of the related transactions. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. We prepare our audited financial statements in accordance with IFRS, as issued by the International Accounting Standards Board, or the IASB.

This annual report includes our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012. Our audited consolidated financial statements have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere in this Annual Report.

This Annual Report also includes the audited consolidated financial statements of Gasoductos de Chihuahua, S. de R.L. de C.V., or Gasoductos de Chihuahua, as of and for the years ended December 31, 2013 and 2012, which were prepared in Mexican pesos. The audited consolidated financial statements of Gasoductos de Chihuahua have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere in this document. The financial statements of Gasoductos de Chihuahua have been prepared in accordance with Mexican FRS, that differ in certain significant respects from IFRS. Therefore, the financial statements of Gasoductos de Chihuahua are not comparable with our audited consolidated financial statements. Considering that Gasoductos de Chihuahua is an entity in which we and Pemex Gas y Petroquímica Básica, or Pemex Gas, each have a 50% equity interest and over which we share joint control, we account for this entity on our financial statements using the equity method, which reflect the necessary adjustments to align their accounting policies with ours under IFRS.

Market Estimates

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

We have made these statements on the basis of information from third party sources that we believe are reliable, including among others:

- Banco de México;
- the International Energy Agency;
- the International Monetary Fund;
- the Mexican Energy Ministry (SENER);
- the Mexican Energy Regulatory Commission (CRE);
- the Mexican Federal Official Gazette; and
- the World Bank.

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

Some data are also based on our estimates, which are derived from our review of internal surveys and analyses, as well as from independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee their accuracy or completeness. In addition, these sources may use different definitions of the relevant markets than those we present. Data regarding our industry are intended to provide general guidance but are inherently imprecise. Though we believe these estimates were reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain. Nothing in this annual report should be interpreted as a market forecast.

Rounding

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

Other Information

Certain peso amounts contained in this report have been translated into U.S. dollars. The exchange rate used to translate such amounts was Ps.13.0765 to US$1.00, unless otherwise indicated, which was the Rate of exchange in effect on December 31, 2013.

We also reference various measurements throughout this annual report that utilize the U.S. or metric system of measurement. The applicable conversions 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, or m^3

In addition, for convenience and consistency we have converted various capacity and volume measurements (as provided in contracts, permits, source materials or other documents in various other capacity and heating value units) into certain consistent units. Specifically, natural gas volume is always presented in millions of cubic feet, or MMcf, LNG, is always presented in m^3, and liquefied petroleum gas, or LPG, is always presented in barrels, or Bbl. For comparison across natural gas, LNG and LPG units, we also provide parenthetically the heating value in millions of Therms, or MMTh, for each of these products. Actual conversion rates of heating value to volume can depend on various factors, and all conversions are approximate. The applicable rates used for these conversions in this annual report are as follows:

1 MMcf natural gas = 252 Gigacalories
1 MMcf natural gas = 1,040 million British thermal units (MMbtu)
1 MMcf natural gas = 1,097 Gigajoules
1 MMcf natural gas = 1,040 Decatherms
1 m^3 LNG = 23.0 million British thermal units (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 Contracts and Permits

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

b) Executive Summary

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

The Company

The Company focuses on the development, construction and operation of energy infrastructure in Mexico. Our footprint in Mexico ranges across several business lines encompassing the entire energy infrastructure value chain that is open to private investment in Mexico.

The Company's assets are divided between two business segments: (1) the Gas segment, which includes distribution through pipelines and the storage of natural gas and LP gas; the distribution of ethane through the Ethane Pipeline Project, currently under construction, LNG storage and the natural gas distribution business, and (2) its power segment, which includes a natural-gas-fired, combined-cycle power generation facility and a wind power generation project currently in development. 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 highly-rated credit-worthy counterparties.

The Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990s as a result of changes to Mexican gas regulation in 1995. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 17 years we have increased our presence as leaders in private investment in the Mexican energy sector (including through greenfield development, organic growth and acquisitions), investing approximately US$2.8 billion in Mexican energy infrastructure, as of December 31st, 2013.

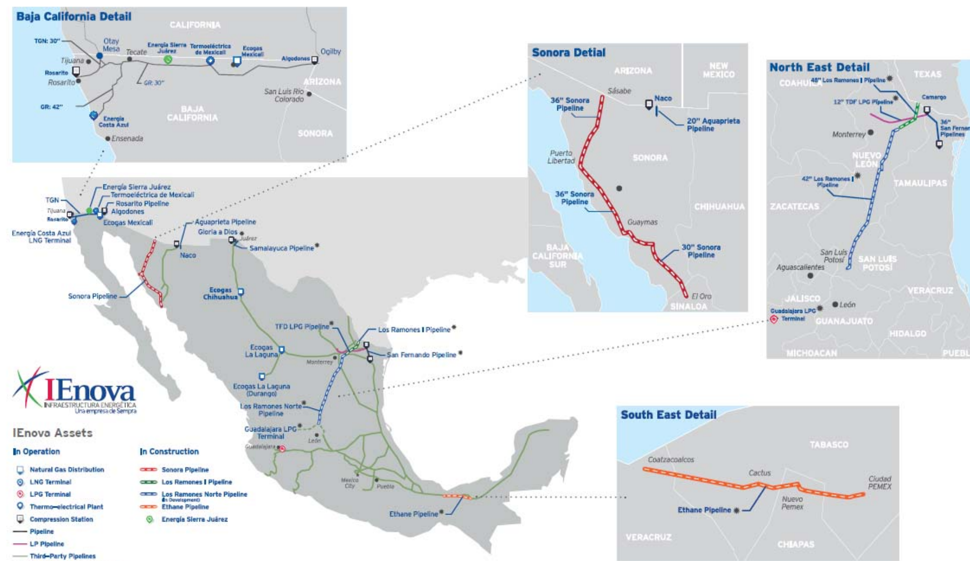
For the year ended December 31st, 2013, the Company reported consolidated revenues of approximately USD$678 million and an Ajusted EBITDA of USD$303 million.

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

- it was the first private company to win a natural gas distribution bid in Mexico after the 1995 energy regulation reforms;
- the Company built the first natural gas pipeline in the state of Baja California, and it 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 CFE to convert its power generation facilities from fuel oil to natural gas. In addition, the Company is the main supplier of natural gas to the CFE in the state of Baja California;
- the Company is partner with Pemex Gas in a natural gas and basic petrochemical infrastructure joint venture;
- the Company built the first LNG terminal on the west coast of the Americas;
- the Company is developing the first cross-border renewable energy project in Mexico, Energía Sierra Juárez;
- it is developing the Ethane Pipeline Project, the first privately-owned ethane pipeline system in Mexico; and
- the Company is developing the Sonora Pipeline project, with approximately 835 km and a combined capacity of 1,280 MMcfd (13.3 MMThd), pursuant to two natural gas transportation service agreements entered into with the CFE in October 2012.
- the Company is developing jointly with Pemex Gas the Los Ramones I pipeline and the Los Ramones Norte pipeline, which will have a total length of 555 km and will allow supplying natural gas to the north, center and west of Mexico with the abundant gas production of the United States.

In addition to our ownership of assets across the energy infrastructure value chain, we have also improved our market position by entering into strategic partnerships. In 2010, we acquired various assets, including a 50% interest in a joint venture with Pemex Gas. The joint venture currently develops, builds and operates natural gas and LPG and ethane pipelines, as well as LP Gas storage facilities, and it will be in charge of building and operating the Los Ramones I and Los Ramones Norte pipelines.

The following map shows the location of the Company's two business segments.



Gas Segment

- *Transportation of natural gas, LP gas and ethane*
  - The Company owns and operates systems for receiving, transporting, compressing, storing and delivering natural gas and LPG throughout the states of Baja California, Chihuahua, Jalisco, Nuevo León, Sonora and Tamaulipas. These systems include:
    - more than 500 km, of natural gas pipelines with the capacity for the transportation of over 5,700 MMcfd (59.3 MMThd);
    - six compression stations with an aggregate of over 155,000 horsepower;
    - more than 190 km, of pipelines with capacity for the transportation of over 30,000 Bld (1.6 MMThd) of LP Gas; and
    - one LPG storage facility with a total of 80,000 Bbl (4.4 MMTh) of LPG storage capacity at the Guadalajara LP Gas Terminal.
  - Our current Gas segment assets include the Gasoducto Rosarito, TGN, Aguaprieta pipeline and the assets held by our joint venture with Pemex Gas, in which we hold a 50% interest. This joint venture owns the San Fernando pipeline, the Samalayuca pipeline, the TDF LPG pipeline system, the Guadalajara LP Gas Terminal, and is currently developing the Ethane pipeline project, the Los Ramones I pipeline, and it participates with 50% in the Los Ramones Norte pipeline.

- *LNG Storage*

The LNG terminal, located near Ensenada, Baja California, began operations in 2008 and was the first LNG receipt facility on the west coast of the Americas. This terminal receives and regasifies the LNG and delivers the resulting natural gas to our Gasoducto Rosarito system for its later distribution in Baja California, Mexico and the United States. Our LNG business also purchases LNG on its own behalf for storage and regasification in our LNG terminal and sells natural gas to third-party customers. The LNG terminal has a storage capacity of 320,000 cubic meters, or m^3, (73.3 MMTh) in two tanks of 160,000 m^3 (36.6 MMTh) each. The terminal is designed to operate at a maximum sending capacity of 1,300 MMcfd (13.5 MMThd). The facility is capable of supplying an equivalent of approximately one-eighth of Mexico's 2012 domestic natural gas needs.

- *Natural Gas Distribution*

The Company owns and operates a natural gas distribution utility, Ecogas, 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). With its approximately 3,468 km of pipelines, this business currently serves approximately 99,000 industrial, commercial and residential customers.

For the year ended December 31, 2013, our gas segment had revenues of approximately US$508 million, representing 75% of our total consolidated revenues, and adjusted EBITDA of US$290 million, representing 95% of our total adjusted EBITDA for the year.

Power Segment

- *Natural Gas Fired Power Generation Business*

The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with our Gasoducto Rosarito which allows it to receive regasified LNG from our LNG terminal as well as gas supplied from the United States through the North Baja Pipeline's 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 it is one of the cleanest natural-gas-fired facilities and with the lowest marginal cost under the oversight of the WECC, which covers most of the western United States and parts of Canada and the Mexican state of Baja California. The plant is directly interconnected to the CAISO by a double-circuit 230 kilovolt dedicated transmission line at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California. The Termoeléctrica de Mexicali plant had generated revenues by selling electricity to our U.S. affiliate Sempra Generation, but under a new agreement effective as of January 1, 2012, we sell this electricity to consumers in California's Independent System Operator power grid, and Sempra Generation acts as marketing and scheduling agent for these sales. While the entire output of the plant is currently connected to the U.S. grid, the physical interconnection may be modified so that a portion or all of the plant's output could be delivered to the CFE's system in Mexico at the La Rosita substation, if an approximately two km transmission line is built and the necessary permits are obtained.

- *Wind Power Generation Business*

The Company is developing Energía Sierra Juárez -a wind power generation project with up to 1,200 MW of projected capacity- to be developed in several phases with a joint venture partner. This project will be located along mountain ridges in the Sierra de Juárez Mountains in the state of Baja California. The initial stage of the project consists of the installation of up to 47 wind turbines (approximately 155 MW), and it will be located very close to the United States border, 112 km from San Diego, California. The Company estimates that this initial stage will require a total investment of approximately US$320 million. The project will interconnect to the existing Southwest Powerlink at SDG&E 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 East County Substation was approved by the California Public Utilities Commission on June 21, 2012. The Company began construction of the project in 2013 and its completion is estimated in 2015. The Company expects that the full amount of electricity from the 47 wind turbines that will be installed initially (for approximately up to 155 MW) will be purchased to the Sempra Energy affiliate Energía Sierra Juárez U.S. , which has signed a 20-year power purchase agreement with SDG&E.

For the year ended December 31, 2013, the power segment had revenues of approximately US$168 million, representing 25% of its total consolidated revenues, and an EBITDA of US$15 million, representing 5% of the total adjusted EBITDA for the year.

Since 1995, the Company has invested approximately US$2.8 billion in energy infrastructure across its two business segments, and it will continue investing in the projects currently in development and construction, such as the Sonora Pipeline project, the Ethane Pipeline project, Los Ramones I Pipeline, Los Ramones Norte Pipeline and the Sierra Juárez wind farm, both directly and through its joint venture with Pemex Gas.

Given its established track record in both developing and operating energy infrastructure in Mexico and in working with the CFE and Pemex Gas, the Company believes that it will be well situated to benefit from these types of future development

opportunities. In addition, the new text of articles 25, 27 and 28 of the Constitution represents a structural change for the Mexican energy sector, because of its opening to private participation.

The shares of the Company are listed on the BMV since March 2013. Effective September 2, 2013, the shares of the Company belong to the Price Index of the BMV, the main stock index in Mexico, formed by the top 35 issuers of shares, according to their ranking in terms of the highest market capitalization and trading volume. See "Capital Markets – Market Performance of the Shares".

Recent Developments

Agreement with InterGen for the sale of 50% of the first phase of Energía Sierra Juárez Wind Project. On April 18, 2014, through its subsidiary Controladora Sierra Juarez, the Company entered with InterGen into a purchase agreement with respect to the 50% of the membership interest representative of capital stock of Energia Sierra Juarez, its subsidiary in charge of developing the first phase of the wind generation Project denominated "Energia Sierra Juarez". The transaction is subject to obtaining the corresponding approvals from the regulatory authorities in Mexico and the United States.

Partnership contract signature for Ramones Norte pipeline. In March 12, 2014, the Company, through Gasoductos de Chihuahua, and in partnership with TAG Pipelines signed the Partnership Contract for the joint operation of the TAG Norte partnership to develop Los Ramones Norte. On the same day, TAG Norte signed a Natural Gas Transportation Services Agreement with PGPB for the whole of the capacity of the Los Ramones Norte system, with a 25-year life that will start on the scheduled commercial operation date in the last quarter of 2015. The effects of this agreement are subject to obtaining the appropriate permits.

Ruling by the Supreme Court of Justice of the Nation about the motion for review challenging the authorization of environmental impact for the LNG Terminal. In May, 2013, Inmuebles Vista Golf, S.A. de C.V. filed a motion for review administrative appeal with the Environmental Protection Ministry challenging the issuance of the environmental authorization for the LNG terminal granted to Energía Costa Azul, S. de R.L. for the Receiving, Storage and Regasification of Natural Gas Terminal in April 2003. On February 7, 2014 the First Chamber of the Supreme Court of Justice of the Nation ruled to dismiss the suit that the Inmuebles Vista Golf, S.A. de C.V. company had filed against certain ruling issued in the proceeding for annulment by means of which the Fiscal and Administrative Justice Federal Court confirmed the validity of the authorization.

Relevant Events

Financing contract in Gasoductos de Chihuahua. On December 5, 2013, the joint venture with PGPB signed a credit contract for approximately US$475 million, which involves the leverage of a portfolio of assets with the purpose of financing its expansion plans, including the Los Ramones project. The transaction was completely signed by BBVA Bancomer, Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer and Bank of Tokyo Mitsubishi UFJ, LTD, who acted as joint lead arrangers, joint book runners and hedge coordinators. The financing, a 13-year senior term loan security, has a structure that allows future growth while securing the repayment of the debt through a portfolio of assets.

Declaration and Payment of Dividend. On October 7, 2013, the Company's Ordinary General Stockholders' Meeting agreed to grant a dividend in cash for US$117 million, equivalent to US$0.101384 per share. This dividend was paid on October 16, 2013.

On March 1, 2013, the Company declared a dividend in the amount of $500.4 million pesos (equivalent to US$39 million at the Rate of exchange of the Bank of Mexico of MXN$12.83 per USD$1.00 as of February 28, 2013), based on the financial statements as previously approved by the Company's stockholders.

Los Ramones Pipeline Project. The Los Ramones I Pipeline project is an approximately 114 km, 48" diameter natural gas pipeline transportation system with a transportation capacity in its final stage of 2.1 bpcd, with a trajectory that will commence at the United States border at a point close to the city of Camargo, Tamaulipas, and will end in Los Ramones Nuevo León. The transportation system will interconnect at its point of origin on the border with the "Agua Dulce-Frontera" pipeline, and at the destination point with the approximately 740-kilometer, 42" diameter gas pipeline known as Los Ramones II. In July, 2013, the Company signed, through a Gasoductos de Chihuahua subsidiary, a contract with Pemex Gas for natural gas guaranteed transportation services for a period of 25 years and for the whole transportation capacity of the Los Ramones I pipeline.

In October, 2013, Pemex announced the implementation of the Los Ramones I Pipeline I in two segments: Los Ramones Norte and Los Ramones Sur. The Los Ramones Norte pipeline is a natural gas transportation system through an approximately 441-kilometer pipeline, including two compression stations, between Los Ramones, Nuevo León and San Luis Potosi. The Company, through Gasoductos de Chihuahua, and in partnership with TAG Pipelines will develop Los Ramones Norte. In, March 2014 they signed a shareholder's agreement to set forth the terms and conditions according to which they will jointly

operate the company TAG Norte. On the same day, March 12, 2014, TAG Norte entered into with Pemex Gas, an integrated natural gas transportation services agreement with respect to the entire capacity of the TAG Norte system, with a term of 25 year starting from the commercial operations date, scheduled for the fourth quarter of 2015.

Market formation services contract. On June 7, 2013, the Company announced the signing of a Market Formation Services Contract with Casa de Bolsa Credit Suisse (Mexico), S.A. de C.V., Grupo Financiero Credit Suisse (Mexico).

Wind turbines supply and warranty contract. On May 21, 2013, the Company announced the signing of a Supply and Warranty of Wind Turbines Contract with Vestas WTG Mexico, S.A. de C.V. by means of which the parties agreed, among other things, to: (i) ESJ, ESJ Turbinas and ESJ Turbinas II will purchase jointly from Vestas 47 wind turbines, as well as the option to purchase 5 additional wind turbines, (ii) IEnova will act as guarantor of the obligations of ESJ Turbinas and ESJ Turbinas II under the Supply Contract and (iii) Vestas will provide maintenance service to the wind turbines.

Sonora project construction contract. On May 21, 2013, the Company announced that as part of the execution of the Sonora project for the construction and operation of an approximately 835-kilometer pipeline transportation system awarded in 2012 by the Federal Electricity Commission to its Aguaprieta Pipeline subsidiary, it entered into a turnkey contract for the construction of said project with GDI SICM Pipelines, S.A. de C.V. GDI-SICM is the consortium formed by the Mexican company Desarrollo Infraestructura and the International company SICM.

Withdrawal of the amparo actions challenging the tender process held by the CFE in 2012. In April 2013, Sásabe Pipelines, S. de R.L. de C.V., or Sásabe Pipelines, and Guaymas Pipelines, S. de R.L. de C.V., or Guaymas Pipelines, withdrew their respective amparo claims challenging the 2012 tender process pursuant to which the CFE awarded the contracts for the construction and operation of four pipelines known as the North-Northeast Project and, particularly, the award of the Sásabe-Guaymas and Guaymas-El Oro segments to the Company's subsidiary Aguaprieta Pipeline S. de R.L. de C.V. For the above, on April 15, 2013, the competent courts dismissed both amparo claims and, as a result, the award in favor of the IEnova subsidiary is no longer subject to any challenge by such companies.

Energía Sierra Juárez, S. de R.L. power export permit. By means of Ruling RES/115/2013 of March 27, 2013, the CRE considered fulfilled the dissolving condition that the permit for the export of electricity granted to Energía Sierra Juárez, S. de R.L. de C.V. was subject to, an IEnova subsidiary company, which is developing the Energía Sierra Juárez project. The above, because the CFE issued a favorable opinion for the performance of the project. The condition mentioned above having been fulfilled, permit No. E/932/EXP/2012 granted to the Company's subsidiary became fully effective to export 155 MW of electric power.

Global Share Offering. On March 22, 2013, the Company announced an initial share offer in Mexico for 98,623,879 common class II shares in a single series, at MXN$34.00 per share. At the same time, the Company fixed the price of its private international offering that took place simultaneously, and which consisted of 91,037,426 common stock shares at the same offer price as the public offer made in Mexico. Both offers were settled on March 27, 2013. On the same date, investors exercised 100% of the 30-day option to purchase up to a maximum of 28,449,195 shares at the same price as those mentioned above.

The common stock of these offers, jointly represent 18.9% of share participation in the Company, including the exercise of the 30-day option for the purchase of additional shares. The net proceeds from the offers were MXN$7,118 million, once the issuance, commissions and expenses discounts or commissions have been made. The net proceeds from the offers are for general corporate ends, including financing its current investment and expansion plans.

Name Change. During the Extraordinary General Stockholders' Meeting held on March 1, 2013 it was decided to change the Company's corporate name to Infraestructura Energética Nova, S.A. de C.V., and to do business as IEnova. IEnova consolidates all the assets of Sempra Energy in Mexico, under a single organizational structure. These actions confirm its strategy of maintaining an independent operation, integrating and consolidating all its assets in Mexico with an identity of their own.

On March 6, 2013, the stockholders of Infraestructura Energética Nova, S.A. de C.V. resolved in lieu of a stockholders' meeting various resolutions, amongst which are: to authorize it to become a publicly traded corporation upon registration of its Shares in the NSR, and to amend Article One of its bylaws in order to change its name to Infraestructura Energética Nova, S.A.B. de C.V.

CEBURES Offering. On February 14, 2013 we issued two series of CEBURES in an aggregate principal amount of MXN$5.2 billion (equivalent to US$408 million at the exchange rate of MXN$12.7364 to US$1.00, as reported by Banco de México on February 12, 2013, the date on which the interest rate swap agreements described below were signed). The CEBURES Offering was for MXN$3.9 billion (equivalent to US$306 million) of 10-year notes with a fixed interest rate of 6.30% and the amount of the second offering was MXN$1.3 billion (equivalent to US$102 million) at an interest rate equal to the TIIE, plus 0.30%. The Company applied the net proceeds of both debt offerings, equivalent to approximately US$405 million, to repay approximately US$356 million in debt owed to affiliates, as well as to fund its expansion plans. On February 12, 2013, the Company entered into swap agreements with certain financial institutions to mitigate the risk of rising interest rates and its exposure to fluctuation in the rate of exchange of the peso in connection with the issuance of stock exchange certificates. Through these agreements the Company obtained a fixed interest rate for the issuance 5-year notes, and for both issuances, converted to dollars the principal and the interest rates payable in pesos. See: *"Liquidity and financing sources—Existing Indebtedness"and "Liquidity and Capital Resources".*

Energy Management Services Agreement. In January 2013, the Company entered into an energy management services agreement with its affiliate, Sempra Generation. Pursuant to this agreement, which is effective as of January 1, 2012, Sempra Generation acts as marketing and scheduling coordinator for the electricity sales from Termoeléctrica de Mexicali power plant and, in addition, performs other support related to administrative, hedging and U.S. regulatory activities. This agreement replaced an agreement that the Company previously had in place with Sempra Generation for the full capacity of the Termoeléctrica de Mexicali power plant.

c) Risk Factors

All investments in the Company's shares involve a high degree of risk. Investors should carefully consider the risks described below before making investment decisions. The Company's activities, financial condition, results of operations, cash flows and/or outlook could be 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 investors may lose all or part of their investments. The risks described below are those that the Company currently believes may adversely affect us. There is the possibility of the existence of additional risks and factors not currently known or those that are currently deemed to be immaterial that may also adversely affect the Company's activities, financial condition, results of operations, cash flows, projects, as well as the market price of our shares. In this section, when we state that a risk or uncertainty may, could or will have a "material adverse effect" on us or could or will "adversely affect" us, we mean that the risk or uncertainty could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our company securities.

Risks Relating to the Company's Activities and Industry

The Company operates in a highly regulated environment and our profitability depends on our ability to comply with various 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 is required to obtain and maintain various permits, licenses and governmental approvals for our activities. In addition, in some cases the prices the Company charges for its products and services are subject to rates regulated by governmental authorities. These regulations and permits may limit the Company's operating flexibility, which in turn could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our shares. For example, in order to obtain the favorable opinion of the Economic Federal Competition Commission ("COFECE") on the permits required for the Rosario Pipeline, the Company undertook to sell the operations of its Ecogas natural gas distribution system in Mexicali. The Company assumed this obligation in 2000 and has made its best efforts to comply with the obligation, but to date as not yet found a purchaser for these assets. The Company has informed the COFECE of its inability to find a purchaser and the Commission has not yet set a deadline to comply with this obligation.

The CRE resets the regulated rates that we charge to our customers on a periodic basis in accordance with the applicable regulations. These set rates may have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our shares. The development of new energy infrastructure projects may require additional permits from the Energy Regulation Commission and the Company's ability to obtain such permits may be affected by various factors, including changes in the Energy Regulation Commission's policies.

The Company cannot predict the future course of changes in laws and regulations that govern our activities or the effect that this changing regulatory environment will have on our operations. In addition, due to the complexity and overlap of the Federal, State and Municipal regulatory regimes under which the Company operates, we may from time to time discover that we are lacking, or not in compliance with, one or more permits. If there is a delay in obtaining any authorization or permit required to conduct our operations or if we fail to obtain or maintain any required approval or permit, the Company may not be able to operate its energy infrastructure projects, or we may be forced to incur additional costs, which, in turn could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities. Please refer to the section "Company Activities – Legal, Administrative and Arbitration Proceedings."

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

The Company's activities are subject to comprehensive Federal, State and Municipal environmental, health and safety legislation, as well as supervision by the governmental agencies responsible for the implementation of such laws, regulations, official standards and related policies. These laws, regulations and official standards require, among other requirements, that the Company obtain and maintain environmental, health and safety licenses for the construction and operation of its installations, including facilities related to the transportation, storage and distribution of natural gas and LPG and the generation of energy. These laws, regulations and official standards may also require the Company to obtain and maintain the following permits and authorizations for the construction and operation of its facilities: environmental impact statements, risk studies; accident prevention program authorizations; forestry land use change authorizations; air emissions operating 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 waste waters; and concession titles

for the use of federal zones, the construction of maritime infrastructure or the installation of new equipment required for our operations. Please refer to the section "Company Activities – Legal, Administrative and Arbitration Proceedings." The failure to obtain and maintain these authorizations, licenses, permits and concessions could adversely affect the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

Even once obtained, compliance with the terms of the authorizations, permits, concessions, regulations and license may be expensive, difficult or economically unfeasible, thereby affecting future operations. Moreover, the governmental agencies could bring actions against the Company for failure to comply with the laws, regulations, official standards and related policies. These actions could include, among others, 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 breaches are classified as criminal offenses. Compliance with stricter 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 us to divert resources in order to make the necessary 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 construction schedule and improvements to any of the Company's projects and/or natural gas transportation, storage and distribution of and energy generation facilities. Private parties are also entitled to bring legal actions to enforce compliance with the environmental laws and seek damages for personal injury, property damage incurred from the breach thereof. The failure to comply with these authorizations, permits, concessions, regulations and license could adversely affect the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

Mexico is also a party to many international environmental protection treaties. These treaties become a part of Mexican law on their ratification by the Senate. Under the North American Agreement on Environmental Cooperation, or NAAEC, which is a parallel agreement to the North American Free Trade Agreement, or NAFTA, each NAFTA country, including Mexico, must ensure that its environmental laws and regulations are duly enforced. While the NAAEC does not empower any of the environmental agencies of the three NAFTA partners to enforce the environmental laws of another party, if any of the NAFTA partners fails to enforce its domestic environmental laws, it may be subject to the dispute resolution mechanism created within the NAAEC, which may lead to monetary fines, and in some cases, the suspension of NAFTA benefits, the result of which could adversely affect the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

The Company anticipates that the regulation of its operations by the Mexican Federal, State and Municipal environmental laws and regulations will increase and become more stringent over time, including as a result of (1) the possible enactment of the regulations of the new General Climate Change Law (which are expected to impose an internal system of limitation on emissions, trade of permits and reduction certificates to allow the federal government to achieve its goals on greenhouse gas reduction), (2) legislative reforms that permit class actions, which provide a legal framework for the formation of groups of plaintiffs who combine their environmental-related claims into a single lawsuit, and (3) the publication in the Federal Official Gazette on June 7, 2013, of the Federal Environmental Accountability Law, which significantly increases liability for environmental damage in Mexico. Please refer to the section "Environmental Regulation; Permits and Matters." Although it is difficult to predict the scope and effect of new environmental laws and regulations, such changes could adversely affect the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

The Company is exposed to high LNG acquisition costs in order to maintain its LNG terminal in operations.

In order for the Company's LNG terminal to remain operational, prevent equipment damage from thermal expansion or contraction during warming and subsequent re-cooling and provide service when needed by customers, the storage tanks and piping must be kept at or below approximately -160°C by maintaining a certain minimum volume of LNG in the system. This need can be met if one or more of our customers maintain a sufficient amount of LNG in our Terminal. However, other than our subsidiary LNG Marketing, which is as customer of the LNG Terminal, at our request, has committed to make reasonable efforts to deliver certain quantities, no user is committed to make deliveries or to maintain minimum LNG inventories, and there is no guarantee that they will do so. LNG Marketing is the only LNT Terminal user that has delivered LNG to the latter. Based on the market price of LNG relative to the price of natural gas in the markets normally served by the Company using regasified LNG from our LNG terminal, we do not anticipate that our third-party customers, Shell and Gazprom, will deliver LNG to the terminal in the near future and that our subsidiary LNG Marketing will not deliver more than the minimum quantities required to keep the terminal cold.

In the event that our LNG Terminal customers do not maintain the necessary minimum volume of LNG in our terminal, the Company would need to purchase LNG on the market in order to maintain the cold temperature of the terminal. If the acquisition cost of said volumes were to exceed the price at which the Company could resell the regasified LNG, we could be subject to financial losses. In addition, if the quality of LNG delivered to the terminal differs from the historical quality, or if the natural gas specifications in the United States or Mexico become more restrictive, the Company may need a larger quantity than estimated of LNG to keep the terminal cool. The acquisition costs of LNG on the open market could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

The Company depends and will continue to depend on some of its affiliates for services and financing and cannot guarantee in the future to be able to obtain such services or financing from our affiliates or from alternate third parties.

The Company depends and expects to continue to depend on certain of its affiliates to provide various technical, administrative and management services. The Company also depends, to a certain extent, on these affiliates for the successful development and operation of its energy infrastructure projects. The Company has entered into service contracts with these affiliates, as described in more detail in the section "Related Party transactions and conflicts of interest." However, these affiliates are not obliged to continue providing these services once the contracts have terminated. Although the Company intends to continue to rely on its affiliates for these services, there is the possibility of not being able to obtain such services from these affiliates or any alternate third party in the future at reasonable prices or at all. Any failure by the Company to obtain these key technical, administrative and management services on acceptable terms could adversely affect our ability to meet our contractual obligations or extend our operations and may have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

If our affiliates do not provide us with debt financing in the future, the Company may be unable to identify alternative sources of funding, which would have a material adverse effect on its activities financial condition, results of operations, cash flows, outlook, as well as the market price of its securities. Although the Company considers that the rates and terms of the credits granted by our affiliates are comparable to those we would have obtained from unrelated third parties in arm's-length transactions, we cannot guarantee that we would have been able to obtain such credit from unrelated third parties at rates and on terms that were as favorable as those we were granted by our affiliates. There is a possibility that the Company not be able to obtain similar financing from these affiliates or any other third party at reasonable rates and terms or at all. Any failure by the Company to obtain a sufficient amount of financing at acceptable interest rates or other terms could adversely affect our ability to meet our contractual obligations or extend our operations, which in turn may have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities.

In addition, Sempra Energy, the indirect stockholder that controls the Company, has guaranteed some of the latter's financial obligations, including LNG Marketing's obligations to the LNG Terminal pursuant to the firm-base storage capacity contract and to the natural gas transportation subsidiaries in accordance with the transportation services contract, as well as third parties. There is no guarantee that in the future Sempra Energy will be prepared to provide this type of credit support with regard to commercial contracts signed by the Company, or with regard to the terms required in exchange for such support, if any. In addition, the Company cannot guarantee that in the event of not obtaining credit support from Sempra Energy in reasonable commercial terms, or at all, that it may obtain such support from independent third parties in reasonable commercial terms, or at all. Any failure by the Company to obtain sufficient credit support may limit it capacity to enter into certain commercial contracts or may adversely affect the terms and conditions of the contracts it does enter into, which in turn may have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook, as well as the market price of our securities. Please refer to the section "Related Party transactions and conflicts of interest."

The outcome of certain legal proceedings against the Company or in relation to the permits or property rights of the LNG Terminal, the wind generation project and the development of the Sonora Pipeline project could have a significant adverse effect on the Company's activities, financial situation, results of operation, cash flows, and the outlook, as well as on the market price for its securities.

Several parties have filed actions before the SEMARNAT or the PROFEPA against the environmental impact authorization granted for the LNG Terminal; one party has filed an administrative writ of constitutional relief (amparo) against authorizations, permits, licenses and/or concessions related to the construction and operation of the Terminal. To date, this writ is still being processed. In spite of the fact that to date, the SEMARNAT and PROFEPA have ruled against the plaintiffs with regard to the Company's environmental impact authorization, said parties have appealed against the rulings issued by the authorities. On February 7, 2014, the Supreme Court of Justice of the Nation ruled to dismissed the action filed by Inmuebles Vista Golf, S.A. de C.V., thereby overturning ECA's concurrent writ of constitutional relief (amparo) and therefore not affecting the judgment ruled in the motion for annulment through which the Federal Fiscal Justice and Administrative Court upheld the validity of the ECA Terminal's environmental impact authorization. On the assumption that the actions filed by these parties are upheld against the Company at the highest level, the environmental impact authorization or the permits for the LNG Terminal would be subject to modification (or, in extreme cases, revoked). To the extent that any modifications force the Company to make additional investments to comply with more stringent mitigation measures or conditions, the operations of the LNG Terminal could be adversely and significantly affected. On the assumption that the environmental impact authorization or one or several of the relevant permit for the LNG Terminal is declared void, the Terminal may not be able to continue operating, which may lead to the breach of one or several of the Company's permits or contracts. Any modification or revocation of the environmental impact authorization or one or several of the permits of the LNG Terminal could have a significant adverse effect on the Company's activities, financial situation, results of operation, cash flows, outlook and the market price for its securities.

The Company is also involved in disputes over the rights of ownership of the land where the LNG Terminal is located. In the event that the Company is unable to defend and retain title to the properties on which the LNG Terminal is located, we could lose the ownership and the use of said land and the related facilities or terminals, which could result in breaches of one or more permits or contracts related to said facilities and/or terminals. In the event that the Company were to be deprived of the

possession and use of these properties, its activities, financial situation, results of operations, cash flows and/or outlook may be adversely and significantly affected.

A non-governmental environmental organization in Mexico has filed a nullity trial before a Federal Administrative Court against the environmental impact authorization issued by the SEMARNAT for the construction and operation of the wind generation project we are currently developing (only as to the environmental aspects). If this nullity trial prospers, the outcome could be to change certain aspects of the project or to impose additional measures to protect natural resources, flora and fauna. In any case, Energia Sierra Juarez would consider other legal resources to refuse the outcome, or if it is only additions of environmental and protection measures, ESJ could abide and the project would not be paralyzed or invalidated.

In 2012, one of the participants in the CFE's public tender processes for the construction and operation of four pipelines in the states of Sonora and Sinaloa, filed a writ of constitutional relief (amparo) before the District Courts in Mexico City against the tender procedure regarding the Sasabe-Guaymas segment and the award to Gasoducto de Aguaprieta. The participant, Sásabe Pipeline, S. de R. L. de C. V. brought action against 11 different governmental authorities, including the CFE, the President of Mexico and the SENER. Another company belonging to the same group called Guaymas Pipelines, S. de R.L. de C.V., filed another petition for relief under the same features as detailed above, against the tender procedure regarding the Guaymas-El Oro segment and the awards to Gasoducto de Aguaprieta. On April 15, 2013, Sásabe Pipelines, S. de R.L. de C.V. and Guaymas Pipelines, S. de R.L. de C.V. withdrew their respective writs of constitutional relief (amparo) filed last year against the CFE's tender process in 2012 for the construction and operation of four pipelines in north west of Mexico, known as the North-Northwest Project and, particularly, against the awards of the Sásabe-Guaymas and Guaymas-El Oro segments to Gasoducto de Aguaprieta. Based on the foregoing, the courts dismissed both writs for constitutional relief and, as a result, the awards to Gasoducto de Aguaprieta are no longer in dispute.

The Company has invested and continues to invest a considerable amount of time and financial resources in the defense of these proceedings and in the related investigations and regulatory procedures. The uncertainties inherent to contentious legal proceedings prevent the Company from estimating the costs and effects of resolving these matters with any degree of certainty. In addition to the procedures described above, from time to time the Company is involved in other litigation and administrative proceedings arising from claims against its assets and operations, including claims filed by providers and users, regulatory authorities and prosecutors, neighbors and environmental activists, as well as labor claims. The outcome of these proceedings may have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook, as well as the market price of its securities. For additional information regarding the legal and administrative proceedings involving the Company, please refer to the section "Company' Activities – Legal, Administrative and Arbitration Proceedings."

Some governmental authorities are authorized to revoke the Company's permits for various reasons, some of which are beyond our control.

The permits granted by the CRE (including the LNG storage, transportation and distribution permits and electricity generation permits) are essential for the operation of the Company's projects; and in the absence of the permits required by the CRE for the operation of a particular project, the Company would be unable to continue operating said project.

The CRE may revoke the permits it issues for any of the reasons provided in the Law of Constitutional Article 27, including (1) the use of discriminatory practices and the breach of the prices and rates established by the CRE; (2) an assignment, encumbrance or transfer of the permits in contravention of the provisions of said law; and (3) the lack of exercise of the rights conferred by the permits during the time periods established in same. The Company's permits may also be revoked in certain circumstances, including the breach of the obligations stipulated by NOM or the general conditions applicable to the respective service and the partial or total suspension of the operation of the system or facilities without just cause or authorization of the CRE.

The early termination of any of the Company's permits, the suspension of the operations of any of our projects or the modification of the terms of the authorization to operate any of our assets as a result of changes to our permits requested by the CRE, may have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook as well as the market price of our securities.

Natural disasters, accidents, terrorism or criminal actions may have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, perspectives and the market price of our securities.

The Company's facilities, including the LNG Terminal, its gas transportation systems, electricity generating plants and office buildings are exposed to losses and damages as a result of natural disasters, accidents and acts of terrorism or crime. Substantially, all the Company's assets are located in the northern and central regions of Mexico, which are susceptible to earthquakes and forest fires. In April 2010 an earthquake in the vicinity of our Termoeléctrica de Mexicali plant caused approximately US$6.8 million in damages and disrupted operations for approximately six weeks while the repairs were made. The repairs needed following the earthquake included temporary repairs to the plant's water storage tank. The Company is currently working on replacing said tank, which is currently in construction, but is not yet operational. The Company expects to commission the new tank during the third quarter of 2014. In addition, in September and October 2012, certain assets owned by PEMEX (located next to the Company's TDF LPG pipeline and the LPG storage facility we are developing near Guadalajara, Jalisco), suffered explosions, temporarily interrupting the operation of the TDF LPG pipeline and the construction of our LPG storage facility (although these incidents did

not have any material effect on the Company's financial condition). Should other similar incidents occur, they may cause significant operational interruptions and significant decreases in the Company's revenues or imply substantial additional costs. Any such incident could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and the market price of our securities.

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spillages or other significant damage to natural resources or third-party property and may also cause personal injuries or fatalities. Any of these consequences could lead to significant claims being filed against the Company. The cost of insurance coverage against any of these risks may increase significantly or become unavailable, and any insurance payouts we receive may be insufficient to cover our losses or liabilities, which in turn could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The Company's activities may not be successful and the projects under construction may not commence operations in the times expected, which can significantly increase our costs and have a significant impact on the Company's ability to recover the investments made.

The acquisition, development, construction or expansion of the Company's reception terminals, natural gas and LPG distribution systems or pipelines, storage and distribution terminals, electricity generation facilities and other energy infrastructure projects involve numerous risks. The Company may disburse substantial amounts on, or incur expenses for engineering, obtaining permits, fuel supply, exploration of resources, legal and other expenses to order to be able to determine the feasibility, economic benefit and possibility of construction of a project.

Success in the development of a particular project is contingent upon, among other things:

- Obtaining the necessary property rights;
- Negotiating satisfactory engineering, procurement and construction contracts;
- Negotiating long-term natural gas or electricity supply or capacity contracts;
- The timely implementation and satisfactory completion of construction;

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

- Unforeseen engineering problems;
- Construction delays and contractor performance shortfalls;
- Work stoppages, strikes or boycotts;
- Equipment supply;
- Adverse weather conditions;
- Environmental and geological conditions;
- Opposition or disputes by non-governmental environmental organizations;
- Risks related to brownfield projects, such as hidden defects, inherited environmental liabilities and problems with rights-of-way; and
- Unanticipated increases in costs associated with known or unknown adverse environmental conditions, including costs of compliance with environmental laws.

For example, the first phase of our Energia Sierra Juárez wind generation project is currently under construction in the Sierra de Juárez mountain range in the Mexican state of Baja California, and is in the process of obtaining long-term financing. We are also in full development of approximately 835 km of the Gasoducto Sonora and, through our joint venture with Pemex Gas, approximately 224 km of the Ethane Pipeline Project, the 114-km Los Ramones I pipeline and the Los Ramones Norte pipeline of 441 km and two compression stations. In addition to the construction challenges for each project, we also consider that from time to time we will require additional permits or the modification of existing permits and acquisition of rights of way or easements.

If the Company is prevented or opts not to conclude the development of any project, it may be prevented from recovering its investment in those projects or have to make payments under its performance obligations, which could have a significant adverse effect on its activities, financial situation, their results of operation, cash flows and/or outlook and/or the market price for its securities.

The Company may not succeed in obtaining new infrastructure projects

The LPG supply market is highly competitive and new pipelines are currently being built to meet the demand of LPG in each of the markets covered by the Company's pipelines. The Company's pipelines compete mainly with other companies that

transport, store and distribute natural gas and LPG. Some of these competitors may expand and build new systems that would create additional competition to the services the Company provides to its customers. Furthermore, the projections contained elsewhere in this annual report in relation to growth in the Mexican energy sector may not ultimately be correct. The inability to obtain new energy infrastructure projects successfully may adversely affect the Company's growth, which could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The Company's activities are capital-intensive and any substantial changes in capital requirements could adversely affect our future activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

All expansions of the Company's activities will be capital-intensive and require significant investment. The amounts and the dates of the investments and expenditures related to the development of any new project will depend in part on the market situation and it is possible that the Company does not estimate the date and the amount of capital investment and expenses related to its new projects correctly.

To the extent that the Company does not have sufficient internal resources available to fund the development of new projects, it may be required to turn to 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 need to fund its operations and capital expenditures at a higher cost or on other unfavorable terms, or we may be unable to raise the capital required to maintain our operations. This could lead the Company to reduce its capital expenditures and could increase financing costs, both of which could reduce our short-term and long-term profitability, which could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

As a result of our long-term, fixed price services or supply contracts, the Company is exposed to the risks associated with inflation, interest rates, exchange rates and the credit quality of its counterparts.

The Company generally endeavors to negotiate long-term contracts with customers in order to optimize the use of its facilities, reduce volatility in earnings and support the construction of new infrastructure projects. However, if these contracts are at fixed prices (i.e., not adjusted for inflation), the profitability of the contract may be adversely affected by inflationary pressures, including increased operational costs and commodity prices, fuel, labor, materials and equipment costs, rising interest rates (that affect financing costs), as well as fluctuations in the U.S. dollar - Mexican Peso exchange rate. In addition, our long-term counterparts may default on their contractual obligations. Any of these factors may have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

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

The operation of the LNG Terminal, gas pipelines, distribution systems and electricity generation facilities involves many risks, including, among others:

- the possibility of performing below expected of output or efficiency levels;
- 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 operations and maintenance costs;
- failure to operate to design specifications;
- operator error; and
- the exercise of the eminent power of domain of the government or other similar events.

The manifestation of any of these risks could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company's operations depend on a limited number of customers with whom we have entered into long-term contracts.

Under the long-term capacity contracts in the LNG Terminal signed by the Company with Shell, Gazprom and LNG Marketing, these users pay the LNG Terminal certain fees for reserve capacity for the reception, storage and regasification of their LNG. The Company has also entered into long-term capacity contracts for the transportation of natural gas and LPG with a small number of key users, including Pemex Gas, the CFE, Shell, Gazprom, InterGen and LNG Marketing. In accordance with these contracts, the users pay certain fees to for capacity reserve and use for the reception, transportation and send-out of natural gas or LPG, as the case may be, through the Company's pipelines. Additionally, in accordance with the electricity sale and purchase contract that the Company has signed with a US affiliates, Sempra Generation, which was in force until December 31, 2011, Sempra Generation paid the Company a fee for the electricity generated by the Company's Termoeléctrica de Mexicali

plant. After recognizing the effects of consolidation of the inter-company income received from LNG Marketing, in 2013 the Company's four major users, together represented about 77% of its revenue. During 2013, outside of these four sources of income, no other user represented more than 4% of the Company's revenues. Our single largest customer in 2013 accounted for approximately 25% of the Company's revenues.

Shell has obtained credit support from BNP Paribas in the amount of US$210.6 million in order to meet its obligations with the LNG storage capacity services supplied by the Company (an amount that may decrease during the term of the contract) and credit support from Shell Finance (Netherlands) B.V in the amount of up to US$95.6 million in order to meet its obligations with our pipeline services. Gazprom has obtained credit support from BNP Paribas and Barclays Bank plc for an aggregate amount of US$73.2 million in order to meet its obligations with the LNG storage capacity services supplied by the Company. LNG Marketing has obtained credit support in the amount of US$282 million in order to meet its obligations with the LNG storage capacity services supplied by the Company and in the amount of US$171.5 million in order to meet its obligations with our pipeline services. However, there can be no guarantee that such credit amounts will be sufficient to compensate us for the damages that we would incur if these customers were to default on their contractual obligations with us.

In general terms, these contracts are subject to (1) early termination provisions for the breach by a party of its obligations or in the event of insolvency of any of the parties, (2) suspension or termination due to events of force majeure beyond the control of the parties, and (3) substantial limitations to remedies for other breaches by any of the parties, including limitations to the amounts of damages payable, which could be substantially less than the amount necessary to ensure the full recovery of costs incurred for breach of the contracts. In addition, the Mexican Public Administration Ministry and the CFE may also terminate our contracts with the latter in advance if they determine that doing so would be in the general public interest, providing there is evidence to uphold that the performance of the contract would result in losses or damages to the Nation or if, when so justified, the CFE no longer requires the supply of natural gas, subject to the Company's right to a hearing and other applicable procedures.

In the event that one or more the Company's counterparts breaches or cannot performs their contractual obligations on a timely basis or if any of these contract is terminated in advance, the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities may be adversely affected. The Company also cannot guarantee that in the event that any of these contracts is terminated, it will be able to enter into any favorable long-term LNG storage capacity or natural gas transportation contracts with other users. If unable to do so, the Company's activities, financial situation, results of operation, cash flows, outlook and/or the market price for its securities could be adversely affected.

The correct operation of the Company's energy infrastructure depends on certain key suppliers, including a subsidiary of its controlling stockholder.

The Company's activities are dependent on certain key suppliers complying with their respective contracts. In particular, the Company's LNG storage operations have depended on Sempra Natural Gas to supply an adequate quantity of LNG to keep our LNG Terminal sufficiently cold to remain in continuous operations and ensure on-going sales of natural gas to customers. Since our LNG Terminal commenced operations, the Company has not been able to obtain sufficient quantities of LNG from Sempra Natural Gas to meet all LNG Marketing’s contractual obligations with its natural gas customers using regasified LNG. However, Sempra Natural Gas is able to purchase and deliver the required quantities of gas on the U.S. border, and pays LNG Marketing to cover the fixed LNG Terminal and pipeline storage capacity costs to the extent that it supplies an annual volume of LNG below the volume agreed and as a consequence, does not use the entire reserved capacity. This payment obligation has been sufficient to cover the losses that LNG Marketing otherwise would have incurred in recent years. Ecogas's distribution system operations depend principally on the supply of natural gas by Pemex Gas and British Petroleum for its subsequent sale to users. If any of these key suppliers fail to perform their obligations, the Company may incur substantial expenses and, in some cases, be exposed to risks of price volatility of commodities, which could have a material adverse effect on its activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company is also exposed to the risk that suppliers that have accounts payable or supply problems as a result of market transactions or other long-term contracts fail to perform their contractual obligations. In this assumption, the Company may have to acquire alternative hedging instruments or perform the underlying contracts through purchases from other suppliers at current market prices. This may lead to additional losses to the extent of amounts paid to the suppliers in breach. Furthermore, any financial difficulties suffered by our suppliers could increase our costs or adversely impact the operation of our energy infrastructure.

The financial situation of any of the Company's suppliers may be affected by a large number of factors - including natural disasters, accidents or terrorism - which in turn may affect their ability to fulfill their obligations with the Company. The payment terms stipulated in the contract by and between the Company and its suppliers are considered normal in the respective markets. However, any material change in the payment terms with our strategic suppliers could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and the market price of its securities.

The Company's ability to supply natural gas depends on third-party services and assets or those not under its control.

The Company's facilities are interconnected with others outside of the areas we serve. Therefore, we often depend on electrical transmission lines, natural gas pipelines and other transportation facilities owned and operated by third parties to:

- deliver the electricity, natural gas and LPG we sell to our customers;
- supply natural gas to our electricity generation plants;
- provide energy services to end users; and
- supply us with natural gas and LPG for sale to our customers.

If the transportation service is interrupted or the capacity is inadequate, the Company's ability to sell and deliver its products and services could be affected and the Company may be deemed liable for any losses or damages incurred by its customers, including the additional costs associated with the acquisition of natural gas or LPG from alternative sources at the prevailing prices at that time in the spot market. These additional costs could have a significant adverse effect on the Company's activities, financial situation, results of operation, cash flows and/or the outlook, as well as on the market price of its securities.

On the assumption that the supplies transported via the Company's systems do not meet certain specifications, the pipelines or markets with which they are interconnected could reject deliveries.

The NOM establish specifications to be met by the products delivered through natural gas and LPG pipelines. These specifications include requirements such as the dew point, composition, temperature and content of foreign bodies (such as water, sulfur, carbon dioxide and hydrogen sulfide) of hydrocarbons. If the total mix of products delivered to a pipeline or market fails to meet the applicable product quality specifications set forth in the NOM, the Company will be required to disclose said non-compliance both to the producer and the pipeline or market. This pipeline or market may refuse to accept all or part of non-compliant products scheduled for delivery, which could reduce the product processing volumes or the Company's revenues, which in turn, may have a significant adverse effect on its activities, financial situation, results of operations, cash flows, outlook and/or the market price of its securities.

The Company does not own all the land on which its pipelines, facilities and other infrastructure are located; therefore, our operations could be disrupted by actions of the landowners. In addition, the delay or the inability to obtain the release of the rights-of-way of the land where some of the projects that are in the process of construction will cross may lead to increases in costs and significant delays in the commencement of operations.

The Company does not own all the land on which its pipelines, facilities and other infrastructure are located, including its transmission lines and gas pipelines. The Company typically obtains the rights to construct and operate the pipelines and ancillary infrastructure on land owned by third parties and governmental agencies for specific periods of time. Therefore, if in the future, the Company is deemed not to hold valid rights of way or leases, or if said rights or leases expire or are terminated in advance, the Company could be exposed to more onerous terms or increases in costs to obtain the rights to use this property. The loss of these rights on the assumption that the Company does not manage to renew the rights of way or leases may have a significant adverse effect on its activities, financial situation, their operation results, its cash flows, outlook or the market price for its securities.

Any delays or the inability in obtaining the rights of way to the property or land the projects will be built or the inability to obtain such rights may lead to delays or cost increases in the construction. The projects require that the Federal government, the permit holder, or both, to obtain authorization to use the buildings from third parties in order to build and operate a particular project. If the Company does not obtain the corresponding rights of way on a timely, additional costs and delays in the commencement of operations may be incurred. Furthermore, in the event that rights-of-way cannot be obtained, changed may be required to the route of a project. This may also result in cost increases and delays in the commencement of operations, which could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The Company's businesses are exposed to market risks, including fluctuations in commodity prices, which may adversely affect its activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The Company purchases energy-related product or commodities from time to time in order to meet its contractual obligations with customers. The Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities could be adversely affected if the prevailing market prices of electricity, natural gas, LNG or other commodities change in a direction or manner not anticipated and for which we had not provided adequately through purchase or sale commitments or other hedging transactions. Also, although the Ecogas system's natural gas distribution operations are not currently exposed to market risk because the purchase price of said commodity is directly transferred to the customers, the differences in prices between natural gas and LPG do affect the Company's ability to sell natural gas. Therefore, the market prices for natural gas may have a significant effect on the operations of distribution of the commodity. Pursuant to our existing energy management services contract, effective from January 1, 2013, with our affiliate, Sempra Generation, the Termoeléctrica de Mexicali plant

began selling electricity o the U.S. market from January 1, 2012. Unlike the previous contract, the Company is no longer entitled to reimbursement for its purchases of natural gas to fuel the Termoeléctrica de Mexicali plant and there is also the possibility of the need to purchase electricity in the open market in order to meet its contractual obligations. This new contract exposes the Company to significantly more risk of commodity price fluctuation than the previous contract signed previously with Sempra Generation for the supply of the Termoeléctrica de Mexicali plant. Additionally, this new contract contemplates that the annual energy management services costs will rise by approximately US$5.0 million, payable by the Termoeléctrica de Mexicali plant. Furthermore, the Company currently purchases natural gas to supply the Termoeléctrica de Mexicali plant from JPM Ventures Energy pursuant to a contract that expires on September 1, 2014. After that date, we expect to supply our Termoeléctrica de Mexicali plant with natural gas purchased directly from our subsidiary LNG Marketing. Since the contract between the Company and JPM Ventures Energy stipulates that JPM Ventures Energy will sell us natural gas at prices lower than market, we expect that our costs will increase as a result of the termination of this contract in September 2014, assuming market conditions remain substantially the same. Market price fluctuations may have adverse effects on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company cannot and does not attempt to hedge its assets or contract positions fully against changes in commodity prices and there is a possibility that our hedging procedures may not work as planned.

In order to reduce its financial exposure to commodity price fluctuations, the Company may enter into contracts to hedge our known or projected sale and purchase commitments, LNG and natural gas inventories, as well as its electricity generation and pipeline capacities. As part of this strategy, the Company may use futures contracts, physical sale and purchase-contracts, financial swaps and options. The Company does not hedge its entire exposure to the risks of the market price volatility of its assets or contractual positions, and its hedging levels will vary over time. To the extent the Company has un-hedged positions or if our hedging strategies do not work as planned, fluctuations in commodity prices could have an adverse effect on our activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities. When hedging our purchase and sale commitments, the Company is subject to the risk that the counterpart in the hedge transaction may be unable to perform its obligations. Such failure could have an adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

Unexpected changes in the market prices of the products or supplies related to the energy sector can be derived from many factors, including (1) weather conditions, (2) seasonality, (3) changes in supply and demand levels, (4) limitations or inefficiencies in transmission or transportation capacity, (5) the availability of alternative sources of energy at competitive prices and (6) the production levels of supplies. Finally, the Company often grants credit to its counterparts and customers. Even though the Company performs analyses before granting credit, there is the risk associated with collection of the credit amounts due. Said changes in market prices or the Company's inability to collect accounts receivable could have a material adverse effect on its activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Federal Government's LPG price subsidy policy could have a material adverse effect on Ecogas operations, the distribution system of the Company.

Currently, the price of LPG -which is affected by the market price of oil - is subsidized by the Federal Government. These subsidies may represent a competitive disadvantage for the non-subsidized gas products offered by the Ecogas distribution system. If the Federal Government maintains the LPG price subsidy policy and the Company is unable to obtain natural gas at competitive prices in comparison with LPG that is available to our customers and potential customers through our competitors, the profitability of our natural gas distribution business could be materially adversely affected, which in turn could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company's risk management procedures may be insufficient to prevent losses.

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

The Company performs a substantial portion of its transportation operations through its joint venture with Pemex Gas, which is subject to joint control.

The Company has a 50% stockholding in the joint venture with Pemex Gas. This joint venture operates two natural gas pipeline systems, a natural gas compression station, an LPG pipeline system in the north of the country and an LPG Terminal in Guadalajara that began operations in 2013. The joint venture is currently constructing the Ethane pipeline Project, the Los Ramones I and the Los Ramones Norte pipelines. All material operating and management decisions related to this joint venture, including the decision to declare dividends or distributions or reinvest profits, require the unanimous approval of both members of the joint venture. Historically, this joint venture has reinvested its profits and has not paid regular dividends. Based on the

foregoing, the Company cannot guarantee that the declaration of dividends or reinvestment of profits will be approved in the future. The joint venture's bylaws do not provide any dispute resolution mechanism other than arbitration. In the event that the Company does not reach an agreement with Pemex Gas on any issue that requires the unanimous approval, we may have to resort to arbitration to resolve the issue, which could adversely affect the operations of the business activities conducted through the joint venture and in turn could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

In 2009, the COFECE issued a resolution requiring Pemex Gas to sell its holdings of some of the assets belonging to its joint venture with the Company. If Pemex Gas divests its partnership interest in the joint venture, the Company will have a right of first refusal to acquire such interests, which could result in our sole ownership and control of the entire joint venture. The Company cannot guarantee the exercise of this right of first refusal. In the event that the Company exercises this right, it will be required to commit to a significant capital investment and there is a possibility that the resources necessary to do so will be insufficient. In the event that the Company does not or is unable to exercise its right of first refusal to acquire Pemex Gas's partnership interests, another party could acquire said interests and thus become our partner in the joint venture. The Company cannot guarantee that itself assures and any new partner would be able to cooperate effectively in the operation of the joint venture. Given that all significant decisions related to the management and operation of the joint venture require the unanimous consent of the partners, in the event that any future partner is not willing to cooperate efficiently with the Company in said management and operation, the Company's activities, financial situation, the results of operation, cash flows, and/or the outlook, as well as the market price for its securities, could be adversely and significantly affected.

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

At December 31, 2013, the Company had 496 employees, of whom 386 were employed by our subsidiary companies that provide operation and maintenance services to our facilities. Several of the Company's operating subsidiaries have entered into collective employment contracts with different labor unions. The Company's collective employment contracts are renegotiated independently for each plant. Salaries are reviewed annually and the other terms of such collective employment contracts are reviewed every two years.

Any failure to reach an agreement on new employment contracts or to renegotiate these contracts may result in strikes, boycotts or other labor disputes. These potential labor disputes could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities. The Company's facilities have not been affected by labor disputes since it commenced operations. Labor disputes, strikes or the negotiation of considerable wage increases, whether as a result of union initiatives, the turnover of personnel or any other circumstance could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company depends on its key executives and employees and their unique knowledge of the energy sector and other business segments, and we may not be able to replace key executives and employees who leave.

The operations and continued growth of our business depends on the Company's ability to attract and retain personnel, including corporate management, specialized engineers and employees, who have the experience necessary to manage and operate our businesses. The competition for highly qualified personnel is intense and the loss of any executive, 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 activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities. The Company does not maintain life insurance for the members of its management team. The loss of the services of such personnel could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company's activities are concentrated in energy infrastructure projects in northern Mexico, in particular in the States of Baja California, Sinaloa, Sonora, Chihuahua, Coahuila, Durango, Nuevo León, Jalisco, Tamaulipas, Tabasco, Chiapas, Veracruz and San Luis Potosí, and events that affect said regions, such as local recessions, natural disasters, local regulation, increases in crime rates or political and social developments, may have a material adverse effect on the Company.

Our current energy infrastructure projects are primarily located in the states of Baja California, Sinaloa, Sonora, Chihuahua, Coahuila, Durango, Nuevo León, Jalisco, Tamaulipas, Tabasco, Chiapas, Veracruz and San Luis Potosí, and all the current permits and authorizations are issued by either the Federal government or by each state government. As a result, any legislative changes, adopted measures, the implementation of stricter rules or additional requirements by the governmental authorities (including changes resulting from state and local elections) may materially adversely affect the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its shares. In northern Mexico, the Company is also exposed to risks of local recession, natural disasters, increase in local crime rates or local political and social developments, all of which could have a material adverse effect on our activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The Company's insurance coverage may be inadequate.

The Company has insurance policies to protect its operations, including the operations of the LNG Terminal and the respective maritime terminals, electricity generation facilities, transportation systems and distribution systems. These policies provide insurance cover on assets, commercial civil liability, additional liability, environmental liability and interruption of operations by amount and subject to deductibles, which in the opinion of the Company, are adequate. However, the Company cannot guarantee to obtain the insurance coverage necessary in the future at commercially reasonable premiums or other insurance in similar terms. In addition, the insurance coverage against a particular incident could prove to be inadequate or accidents or claims could occur that not covered or that become a matter of conflict. The Company currently 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.

The Company cannot guarantee that in the event of certain claims that affect all or part of their its facilities or that its operations would be interrupted for long periods, insurance payments derived from the respective policies would be sufficient to cover its resulting losses of revenues, increases in costs or the repair or replacement costs. Furthermore, there can be no assurance that the insurers will be solvent at the time of a claim. This loss of revenue, increased expenses or additional costs could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company regular uses volatile and hazardous materials that expose it to risks that may affect its operations.

Our activities involve storing and transporting highly flammable and explosive materials, which are subject to extensive regulation. Although the Company complies with all the environmental, sanitary, security, transportation, risk management and safety requirements and standards, our operations are subject to significant hazards associated with using, storing, transporting and disposing of such materials, including:

- explosions;
- fires;
- severe weather and natural disasters;
- mechanical failures, including leaks and ruptures in pipelines or storage tanks;
- discharges or emissions of hazardous substances or gases;
- other environmental risks; and
- terrorism acts.

Any such accident, damage or destruction caused by the use of these materials could have an adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and the market price of our securities.

The Company's natural gas distribution operations (Ecogas system) may face increased competition due to the expiration of their exclusivity rights.

The Company had an exclusivity period of 12 years for the distribution of natural gas business in each of the three geographical regions where it operates. The last of these exclusivity periods terminated in 2011. Therefore, the Company could face competition from other distributors who can now build distribution systems and compete with the Company for customers in each of these regions. Other distributors who expand their systems or enter the market and build new natural gas distribution systems in our regions will create additional competition for the natural gas supplied by the Company and if we are unable to compete successfully with such competitors, this could have an adverse effect on our activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

The development of new business technologies increases the risk of attacks on our information systems and the integrity of our energy grid.

Certain elements of the Company's energy infrastructure may be exposed to cyber security risks. In addition to the general risks related to the protection of information and cybernetics - including viruses, internal malicious acts and the accidental disclosure of sensitive information-, the energy industry is exposed to new security risks related to the automatic metering devices and other electronic components of its infrastructure. The implementation of these technologies offers a new and great opportunity for attacks against information systems and, more importantly, the integrity of the energy supply network. Although the development of protection measures against these risks represents a continuous effort for the industry level, the Company cannot guarantee that successful attacks will not occur. Any attack of this type against the Company's information systems, the integrity of the energy supply network or any of its installations could have an adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and the market price of our securities.

The development of new or alternative energy sources may cause the natural gas market to contract and as a consequence, cause decreases in the revenues generated by this business.

Currently, the industrial users of the Company's distribution system use natural gas as the main source of power for their operations. However, it is possible that other competitive sources of energy will be developed in the future, which could affect the demand for natural gas and, as a result, the Company's revenues and financial situation.

Mexico households mainly use electricity, LPG and natural gas to meet their energy needs. To the extent that households use electricity, LPG or other alternative sources of energy, the consumption of natural by residential users could decrease, which could have a material adverse effect on the Company's activities, financial condition, results of operations, cash flows, outlook and/or the market price of our securities.

Risks Related to the Country's Situation

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

Substantially all the Company's operations are conducted in Mexico and the whole of its potential for growth is centered in Mexico; its 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, outlook and/or the market price of its securities may be materially adversely affected by the general condition of the country's 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, and a reduction of liquidity in the banking sector. Such conditions could have a significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook 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 devaluations 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 significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities..

After being significantly impacted by the global economic crisis that began in 2008, Mexico's gross domestic product, or GDP, fell 6.1% in 2009, the sharpest decline since 1932, according to the World Bank. Conversely, Mexico's GDP grew by 4.0% and 3.9%, respectively, in 2011 and 2012 and the GDP is estimated to have grown by 1.1% in 2013. However, if the Mexican economy experiences another recession, if inflation or interest rates increase significantly or if the Mexican economy is otherwise adversely impacted, this could have a significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

Changes in the federal government policies could have a significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The federal government has exercised, and continues to exercise, significant influence over the Mexican economy. The measures adopted by the government concerning the economy and state-owned enterprises could have a significant effect on Mexican private sector entities in general, and on the Company in particular, as well as on market conditions, prices and returns on Mexican securities, including the Company's securities. In the past, economic and other reforms have not been enacted because of strong congressional opposition to the presidential initiatives.

The government could implement significant changes in laws, policies and regulations, which could affect the economic and political situation of the country. The latest presidential and congressional elections were held in July, 2012. Enrique Peña Nieto, candidate of the Institutional Revolutionary Party, or PRI, was elected President of Mexico, and he assumed power on December 1, 2012. The President of Mexico has a strong influence on the determination of governmental policies and actions related to the Mexican economy, and the new administration might introduce substantial changes to the laws, policies and regulations in Mexico, which could have a significant adverse effect on the Company's financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The Company's performance historically has been tied to the willingness of the Mexican government -including the CFE and PEMEX- to invite private investment in energy infrastructure facilities and to contract with private companies for energy-related services. Such willingness to invite private participation in the industry is generally dependent on the political climate of the country.

On September 8, 2013, the Mexican President announced the tax reform initiative. On December 11, 2013, the decree was published in the Official Gazette whereby several tax regulations were amended, supplemented, and repealed, becoming effective on

January 1, 2014. Upon enactment of such decree, the ISR and IETU laws as of December 31, 2013, were repealed and superseded by a new income tax law. The main effects of this tax reform in our consolidated financial statements are:

- *Income Tax Rate.* The former income tax law indicated a reduction in the tax rate to 28% for 2014 and future years. The rate under the new income tax law is 30% for 2014 and future years.

  The impact on profits from this change in the tax rate is:

  - For 2013, the change in rates resulted in an increase in deferred tax expense of approximately $15 million of income tax expense considering their effects in deferred income taxes.

  - Regarding 2014 to 2018, the Company estimates that the change in rates will result in an increase in income tax expense during this five year period of approximately $27 million.

- *Income tax consolidation regime.* The income tax consolidation regime in effect as of December 31, 2013 was replaced by a new regime in which the benefits realized from tax consolidation are subject to recapture over three years instead of five years. In connection with the elimination of the income tax consolidation regime, there is an obligation to make an advance payment for approximately $87 million in 2014 which is included in the income tax short-term liabilities in the consolidated statements of financial position.

  Additionally, the subsidiaries' consolidated statements of financial position reflect the separate presentation of the payable and recoverable taxes as of December 31, 2013, considering that the company is no longer maintaining the right for tax balances compensation.

- *Income tax on dividends.* Also, effective from January 1, 2014, a new income tax on dividends was created to charge 10% on dividends received by foreign residents.

On December 20, 2013, the Mexican presidency signed a decree establishing constitutional reform with respect to laws governing the energy sector, approved by the national congress and the majority of state congresses. The decree 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. As of the date of issuance of this annual report, no secondary legislation has been enacted that will define the details of private investment in the above mentioned business segments.

The Company cannot provide any assurance that the current political situation or any future developments in Mexico will not have a significant adverse effect on its business, financial condition, results of operations, cash flows, outlook and/or the market price of the Company's securities.

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

The Mexican peso—U.S. dollar exchange rate is important for the Company because of its effect on the Company's business, financial condition, results of operations, cash flows and outlook. 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 operating margins. This is because the aggregate amount of 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 would likely affect the value of U.S. dollar receivables and payables as well as the peso-denominated deferred income tax assets and liabilities. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" section.

Most of the Company's net sales are either denominated in dollars or linked to the value of this currency. However, a part of the cost of the goods sold by the Company, including costs relating to labor and other sales, general and administrative expenses are invoiced in pesos. In addition, the Company pays taxes in pesos, as well 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 its income tax expenditure. Fluctuations in the Mexican peso – U.S. dollar exchange rate could have a significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

The recent increase in the level of violence in the country has affected, and could continue affecting adversely the country's economy and could have an adverse effect on the Company's financial situation or on its performance.

Over the past few years there has been a significant increase in violence as a result of illegal drug trafficking, particularly in the northern states along the U.S. border, and most of the Company's facilities are located in this region. The increase in violence has had adverse effects on economic activity in the country. Also, the social instability and social and political adverse events that have occurred in Mexico, or which affect the country, could also significantly affect the Company and its financial performance, and violent criminal acts may cause an increase in the Company's expenditure in insurance and security. The Company cannot guarantee that the level of violence in Mexico, which is outside its control, will decrease or increase. The increase in crime could have a significant adverse effect on the Company's activities, financial situation, operation results, cash flows and/or outlooks, as well as on the market price of its securities.

Events and investors perception of risk in other countries, especially the United States and emerging market countries, may significantly affect adversely the market price of Mexican securities, including that of the Company's securities.

The market prices of securities issued my Mexican issuers are affected in different measure by the economic situation and the market in other countries, including the United States, the rest of Latin America, and other countries with emerging markets. Therefore, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Mexican issuers. Crises occurring in the United States or in countries with emerging markets may cause a decrease in investor's interest in securities issued by Mexican issuers, including the securities issued by the Company.

In the past, the arising of adverse economic conditions in other emerging market countries has resulted, in general, in flight of capital and, as a consequence, in a decrease in the value of foreign investments in Mexico. The financial crisis that arose in the United States during the third quarter of 2008 unleashed a global recession that adversely affected, directly and indirectly, the Mexican economy and capital markets, 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. Any of these factors, if they were to occur again, would negatively affect the market value of the Company's Shares 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 significant adverse effect on the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

Further, the Mexican economy is also affected by international economic and market conditions generally, and particularly by the economic and market conditions in the United States. For example, share prices in the BMV have traditionally been sensitive to fluctuations in U.S. interest rates and the activity levels 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 the 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 that events in the United States, other emerging market countries or elsewhere will not significantly affect adversely the Company's business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

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

The Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and other similar laws applicable worldwide prohibit companies and their proxies from making undue payments to public servants and others in order to obtain or retain business opportunities. There can be no assurance that the Company's internal control policies and procedures will protect it from the consequences of negligent 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 significant adverse effect on its business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

Risks Related to the Company's Shares

The market price of the Company's Shares may fluctuate significantly, and investors could lose all or part of their investment.

Volatility in the market price of the Company's Shares may prevent investors from being able to sell their Shares at or above the price they paid for them. The market price and liquidity of the market for the Company's Shares may be significantly affected by numerous factors, some of which are beyond the Company's 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 other issuers in the same sector as the Company, which may not necessarily be related to the operating performance of these issuers;
- investors' perceptions of the Company's outlook and that 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;
- the operating performance of other companies comparable to the Company;
- actions by the Company's indirect controlling stockholder with respect to the sales of the Shares it beneficially owns or the perception that such sales might occur;
- additions or departures of key management personnel;
- announcements by the Company's competitors of significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments;
- new laws or regulations or changes in the interpretation of current laws and regulations, including tax guidelines, applicable to the Company's businesses or its securities;
- the 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; and
- the political conditions or events in Mexico, the United States and other countries.

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

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

The Company is a holding company with no independent operations or substantial assets with no significant assets except for the capital stock of its operating companies and joint ventures. Therefore, the Company depends on the results of the operations of its subsidiary companies and joint ventures. Each of the Company's 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. For example, with respect to the Company's joint venture with Pemex Gas, both the Company's approval and that of its joint venture partner, Pemex Gas, is required for the declaration of any dividend or distribution. In addition, by law, the Company's subsidiaries may only pay dividends (1) out of retained earnings included in financial statements that have been approved at their respective stockholders' meetings, (2) after all losses from prior fiscal years have been covered, and (3) with the prior allocation of 5% of its net income for such fiscal year to its legal reserve, 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 the operations of the Company's subsidiaries or joint ventures could have a material adverse effect on its business, financial condition, results of operations, cash flows, outlook and/or the market price of its securities.

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

Investing in securities such as the Company's shares involves a high degree of risk and is generally considered to be 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 investors' ability 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.

Future issuances of Shares, or the possibility or perception of such future issuances, may significantly affect the market price of the Shares.

In the future, the Company may issue additional Shares to finance its acquisitions, or investments or repayment of its debt or for other purposes; and the new issued Shares may represent a substantial percentage of its outstanding share capital. The Company cannot predict the effects on the market price of its Shares of future sales of additional Shares, or issuances of additional sales for their future sale. 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 investors to sell their Shares at a time and price that they might deem appropriate. Any such issuances could also result in a dilution of stockholders' economic and voting rights or a negative market perception and potentially in a lower market price of the Company's Shares.

Future offerings of debt or preferred securities may limit the Company's operating and financial flexibility and may significantly affect in an adverse way the market price of its Shares and dilute their value.

If the company decides to issue debt or preferred securities in the future or otherwise incurs in other types of indebtedness, these debt or preferred securities or indebtedness might 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 issued in the future by the Company may have more favorable rights, preferences and privileges, including with respect to distributions, than those of the Company's Shares and may result in dilution to holders of its Shares. Because the decision to issue securities in any future offering or otherwise incur indebtedness will depend on the market conditions and other factors beyond the Company's control, it is not possible to predict or estimate the amount, timing or nature of the Company's future offerings or financings it would contract. Any of these operations could materially reduce the market price of the Company's securities and dilute their value.

The Company is controlled by Sempra Energy, and its interests could conflict with those of investors.

The Company's indirect controlling stockholder, Sempra Energy, beneficially owns approximately 81.1% of the Company's outstanding capital stock Shares. In addition, Sempra Energy has guaranteed the obligations of LNG Marketing to the Company's LNG terminal and to its pipeline business, has entered into a loan agreement with the Company, and provides it with various goods and services pursuant to several other agreements. For a detailed description of the main contractual relationships between Sempra Energy and the Company, please refer to "Management—Transactions with Related Parties." 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 stockholders and thus exercise control over its business policies and affairs, including the following:

- the composition of the Company's Board of Directors and, consequently, any determinations of the board with respect to the Company's business direction and policy, including the appointment and removal of its 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 debt financing to be incurred.

Sempra Energy may direct the Company to take actions or to not take actions that could be contrary to investors' interests and under certain circumstances may be able to prevent other stockholders, including the investors, from blocking these actions or from causing different actions to be taken. Also, Sempra Energy may prevent change of control transactions that might imply a change of control, depriving investors of a possible opportunity to dispose of or realize a premium on their investment in the Shares.

The Company cannot assure that Sempra Energy will act in a manner consistent with the investors' 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 securities.

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

The Company has entered into and intends to continue to enter into transactions with several entities directly or indirectly owned or controlled by Sempra Energy, its indirect controlling stockholder. Both the 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 controlling stockholders and their subsidiaries or among the subsidiaries of the same controlling stockholder do not deviate substantially from the prevailing market conditions for those types of transactions, including requiring the approval of the board of directors for these transactions. It is likely that the Company will continue entering into transactions with Sempra Energy and its subsidiaries and affiliates, and it is likely that the Company's subsidiaries and affiliates will continue to enter into transactions among each other. The Company cannot assure that the terms that in its opinion and in the opinion of its subsidiaries "do not deviate substantially from the prevailing market conditions" will be considered as such by third parties. In addition, future conflicts of interest may arise between the Company and Sempra Energy or any of its subsidiaries or affiliates, or among the Company's subsidiaries and affiliates, which conflicts are not required to be and in fact may not be resolved in the Company's favor. Please refer to "Management—Related Party Transactions and Conflicts of Interest."

There can be no assurance that the Company will pay or maintain a cash dividends policy.

The amount available for cash dividends will depend on 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 the Company and its subsidiaries, including the terms of its debt instruments. Also, the amount of cash available for dividend payments may vary significantly from the estimates. The Company can offer no assurance that it will be able to pay or maintain the payment of dividends policy. The Company's actual results may differ significantly from the

assumptions used by its Board of Directors in recommending dividends to stockholders or in adopting or amending a Company dividend policy in the future. Also, there can be no assurance that the Company's Board of Directors will recommend a dividend payment to its stockholders or, if recommended, that its stockholders will approve such dividend payment. Sempra Energy, as the Company's indirect controlling stockholder, 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 its stockholders are subject to the approval of its stockholders. As long as the Company's indirect controlling stockholder continues to own the majority of the Company's Shares, it will have the ability to determine whether dividends are paid as well as the amount of such dividends. For a description of the factors that can affect the availability and timing of cash dividends to shareholders, please refer to "*Risk factors—The Company is controlled by Sempra Energy, and its interests could conflict with those of investors*," above and "*The issuer –Dividends*".

The Company's bylaws contain provisions to prevent transactions that imply a change of control, which would otherwise result in benefit of the same.

Certain provisions in the Company's bylaws could make it difficult for a third party to acquire a significant ownership percentage of its Shares without creating an obligation to purchase all or part of its 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 stockholders would receive a premium on the current market value for their Shares. As a result, subject to certain exceptions, any person whose acquisition of shares is considered in breach of the provisions stipulated in the Company's bylaws to prevent beneficial ownership control changes would not be able to exercise the respective corporate rights of these actions, including specifically the right to vote. In addition, any person who acquired shares in violation of the Company's bylaws is obliged to sell the shares purpose of the acquisition by one or several transactions at the BMV within 90 days of such acquisition, without prejudice to the purchaser's ownership rights of the purchaser until the shares purpose of the acquisition have been sold. Also, the Board of Directors may consider certain factors set forth in the Company's bylaws, as well as any prior approvals by governmental authorities required for such acquisition, including antitrust or other regulatory approvals. For more information about these measures, please refer to "Management –Bylaws and Other Contracts"

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

As required by law, the Company's bylaws provide that non-Mexican stockholders are considered to be Mexican with respect to Shares held by them, as well as with respect to any property rights, concessions, participations and interests owned by the Company and to the rights and obligations derived from any agreements between the Company and the Mexican government. Under this provision, a non-Mexican stockholder 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 stockholder's rights as a stockholder, but is not deemed to have waived any other rights it may have with respect to its investment in the Company. Stockholders who invoke such governmental protection in violation of this agreement will forfeit their shares in favor of the Mexican government.

Risks related to statements about the future

This annual report contains estimates and forward-looking statements. These statements relate to the Company's business, financial condition, results of operations, cash flows and outlooks. Estimates and forward-looking statements are based primarily on the Company's 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 currently available to the Company.

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

- the local, national and international economic, political, legislative, regulatory and competitive conditions and developments;
- the measures taken by regulatory, governmental and environmental bodies in Mexico and other countries, as well as the timing of such measures;
- the energy markets, including the timing and extent of changes and volatility in commodity prices;
- the services and financing provided to the Company by its affiliates;
- the resolution of litigation and property disputes of the Company;
- the loss of the Company's most important suppliers or customers;
- the Company's ability to hire, train and retain highly qualified employees and executives;

- the timing and success of the Company's business development efforts and construction, maintenance and capital projects, including risks inherent in its ability to obtain, and the timing of granting of permits, licenses, certificates and other necessary authorizations;
- the availability of electric power, natural gas and liquefied natural gas, 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 currency 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 agreements;
- increased competition due to expected expansion of the natural gas sector in Mexico;
- the Company's reliance on natural gas delivery transportation assets and services that it does do not own or control;
- the risks posed by working with or handling volatile and/or hazardous materials;
- the risks related to attacks on the Company's information systems and the integrity of the 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 the Company's control;
- government expropriation of assets and title and other property disputes about Company property;
- capital markets conditions, including the availability of credit and the liquidity of the Company's investments;
- risks posed by decisions and actions of joint venture partners; and
- other risks and uncertainties discussed in this section and otherwise herein.

The words “believe,” “expect,” “anticipate,” “plan,” “estimate,” “project,” “contemplate,” “intend,” “depend,” “should,” “could,” “would,” “will,” “may,” “potential,” “target,” “pursue,” “goals” and similar words are intended to identify estimates and forward-looking statements. The estimates and forward-looking statements speak only as of the date of this annual report, and the Company does not undertake any obligation to update or to review any estimate and/or forward-looking statement because of availability of new information, certain future events or other factors that may arise. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of the Company's future performance. The Company's actual results may differ substantially from those expressed in the estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this annual report might not occur and the Company's future results and its performance may differ materially from those expressed in these forward-looking statements. Because of these uncertainties, investors should not rely unduly on these estimates and forward-looking statements.

d) Other values

As of December 31, 2013, the unique company’s securities registered in the NSR maintained by the CNBV are the CEBURES and the shares of its capital stock.

The Company has filed before the CNBV and the BMV, the relevant quarterly and annual reporting information according to the LMV and provisions, including without limitation the annual information related to the celebration of the ordinary shareholders meeting, including (i) the reports referred to in Art. 28, Section IV of the LMV, (ii) the external auditor’s report on the financial information review, (iii) the audited annual consolidated financial statements, (iv) appointment for directors and committee members of the Audit and Corporate Practices Committees and (v) other applicable information. The financial information is reported quarterly, in a cumulative and on a comparative basis over the same period last year.

Also, the company has provided complete and timely reports on significant events and periodic information required by the LMV and provisions.

e) Significant changes to the rights of securities registered in the NSR

As of the date of this annual report, the company has not modified the rights of the securities registered in the NSR and maintained by the CNBV.

f) Use of resources

CEBURES Offering. On February 14, 2013 we issued two series of CEBURES in an aggregate principal amount of MXN$5.2 billion, equivalent to USD$405 million. The Company used the funds to repay approximately USD$356 million of intercompany loans and the remaining balance was used to partially fund the expansion plans.

Global Share Offering. On March 21, 2013, the Company announced an initial share offer in Mexico, at the same time, the Company fixed the price of its simultaneous private international offering at the same offer price as the public offer made in Mexico. Both offers were settled on March 27, 2013.

The offered common stock represents 18.9% of share participation in the Company. The net proceeds from the offers were approximately MXN$7,118.4 million, equivalent to USD$574 million, including the over-allotment option exercise of the 30-day option for the purchase of additional shares, after deducting the issuance fees and commissions which are the company's responsibility.

The use of funds was: 21% general corporate purposes, 37% partial funding of investment and expansion plans: 81% gas segment and 19% power segment, and 42% remains available in cash and cash equivalents.

g) Public documents

According to the CNBV's Mexican Securities Issuer Regulation and the LMV, the Company has timely filed the quarterly and annual financial information. The company has also complied with the information required by rating agencies under related contracts. Available information may be requested to:

Mike Adams
madams@ienova.com.mx
T. (55) 9138 0100

The Company's main offices are located at Av. Paseo de la Reforma No. 342, Piso 24, Col. Juarez, C.P. 06600, Mexico, D.F. The investor relations department's telephone number is (55) 9138-0100; and its email address is ienovainvestorrelations@ienova.com.mx .

The Company's web page URL iswww.ienova.com.mx . The mention of this page does not mean, nor may it be interpreted in the sense that the information contained in the same is part of this document, and investors should not make decisions based on such information when deciding to invest in the Company's Shares.

2. THE ISSUER

a) The Issuer's History and Evolution

IEnova was incorporated 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 the capacity of notary public No. 226 for the Federal District, and it was recorded under commercial number 209,466 of the Federal District Public Commercial Registry on April 15, 1996. IEnova was incorporated for duration of 99 years. On April 25, 2008, the Company was transformed into a limited responsibility corporation pursuant to the LGSM and its name was changed to Sempra Energy México, S. de R.L. de C.V., and later, on December 3, 2008 its name was changed to Sempra México, S. de R.L. de C.V.

During the Extraordinary General Partners' Meeting held on February 15, 2013 the company was transformed into a variable capital corporation, effective from February 20, 2013. During the Extraordinary General Stockholders' Meeting held on March 1, 2013 it was decided to change the Company's corporate name to Infraestructura Energética Nova, S.A. de C.V., and to do business as IEnova. IEnova consolidates all the assets of Sempra Energy in Mexico, under a single organizational structure. These actions confirm its strategy of maintaining an independent operation, integrating and consolidating all its assets in Mexico with an identity of their own.

On March 6, 2013, the shareholders of Infraestructura Energética Nova, S.A. de C.V. resolved in lieu of a shareholders' meeting various resolutions, amongst which are: (i) to authorize it to become a publicly traded corporation upon registration of its Shares in the NSR, (ii) to transform into a variable capital publicly traded corporation by the amendment Article One of its bylaws in order to change its name to Infraestructura Energética Nova, S.A.B. de C.V., and (iii) the implementation of the global initial public offering.

The Issuer's main offices are located at Paseo de la Reforma 342, piso 24, Colonia Juárez, código postal 06600 in México, Federal District, and its telephone number is +52 (55) 9138-0100.

b) Description of the Business

i. Main Activities

The Company focuses on the development, construction and operation of energy infrastructure in Mexico. The Company has a successful track record in the development, construction and operation of large energy projects, as reflected by its solid growth. Its footprint in Mexico ranges across several business lines encompassing the entire energy infrastructure value chain that is open to private investment in Mexico, making it one of the largest private energy companies in Mexico.

The Company's assets are divided between two business segments: (1) the gas segment, which includes the transportation and storage of natural gas, LP gas, and Ethane through pipelines, storage and distribution of LNG liquefied natural gas; and (2) the Power segment, which includes a natural-gas-fired, combined-cycle power generation facility and a wind power generation project currently in development. 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 highly-rated credit-worthy counterparties.

The Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990s as a result of changes to Mexican gas regulation in 1995. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 17 years the Company's presence as a leader in private investment in the energy sector has grown considerably (through greenfield development, organic growth and acquisitions), investing approximately US$2.8 billion in energy infrastructure.

In October 2012, the CFE awarded the Company two new U.S. dollar-denominated natural gas transportation service agreements. Under these agreements, which were entered into with the CFE in 2012 the Company is building the Sonora Pipeline, located in the states of Sonora and Sinaloa, with a combined length of approximately 835 km and total combined capacity of 1,280 MMcfd (13.3 MMThd).

In December 2012, the Company, through its joint venture with Pemex Gas executed an ethane transportation services agreement with Pemex Gas to construct and operate an approximately 224 km pipeline with a designed capacity of up to 151.9 MMcfd (2.7 MMThd) that will supply ethane from the PEMEX processing plants located in the states of Tabasco, Chiapas and Veracruz to the Ethylene XXI and polyethylene plant located in the state of Veracruz owned by Braskem IDESA. It is estimated

that the investment of approximately US$330 million, is expected to be paid for entirely by the joint venture without any additional capital contributions from the partners. This will be the first privately-owned ethane pipeline in Mexico.

In July, 2013, the Company signed, through a Gasoductos de Chihuahua subsidiary, a contract with Pemex Gas for natural gas guaranteed transportation services for a period of 25 years and for the whole transportation capacity of the Los Ramones I pipeline, 114 km long, 48 inches diameter and two compression stations.

In October, 2013, Pemex announced the implementation of the Gasoducto Los Ramones II in two segments: Los Ramones Norte and Los Ramones Sur. The Los Ramones Norte pipeline is a natural gas transportation system through an approximately 441-kilometer pipeline, including two compression stations. The Company, through Gasoductos de Chihuahua, and in partnership with TAG Pipelines will develop Los Ramones Norte, and in March 2014 they signed a Partnership Contract for the joint operation of the TAG Norte partnership. On the same day, March 12, 2014, TAG Norte signed a Natural Gas Transportation Services Agreement with Pemex Gas for the whole of the capacity of the Los Ramones Norte system, with a 25-year life that will start on the scheduled commercial operation date in the last quarter of 2015.

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

- it was the first private company to win a natural gas distribution bid in Mexico after the 1995 energy regulation reforms;
- the Company built the first natural gas pipeline in the state of Baja California, and it 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 CFE to convert its power generation facilities from fuel oil to natural gas. In addition, the Company is the main supplier of natural gas to the CFE in the state of Baja California;
- the Company is partner with Pemex Gas in a natural gas and basic petrochemical infrastructure joint venture;
- the Company built the first LNG terminal on the west coast of the Americas;
- the Company is developing the first cross-border renewable energy project in Mexico, the Energía Sierra Juárez wind generation project;
- it is developing the Ethane pipeline project, the first privately-owned ethane pipeline system in Mexico; and
- the Company is developing the Gasoducto Sonora project, with approximately 835 km and a combined total capacity of 1,280 MMcfd (13.3 MMThd), pursuant to two natural gas transportation service agreements entered into with the CFE in October 2012.

In addition to its ownership of assets across the energy infrastructure value chain, the Company has also improved its market position by entering into strategic partnerships. In 2010, the Company acquired various assets, including its 50% interest in the joint venture with Pemex Gas. Currently, this joint venture focuses on the development, construction and operation of natural gas, LP gas and ethane transportation systems, as well as LP gas storage terminals.

Competitive Advantages

The Company believes the following competitive strengths distinguish us 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 17 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 Mexico. Over this time, the Company has established a proven track record of building greenfield and brownfield projects and the flexibility to acquire energy assets in existing and new lines of business. The Company made its first investment in Mexico in 1996, when it won the first private natural gas distribution permit awarded in Mexico. It has subsequently developed its Ecogas distribution system, which has evolved into a model natural gas distribution companies. The Company's largest project to date is the LNG Terminal, which involved an investment of US$1.2 billion. Other notable projects include the investment of approximately US$350 million to construct the natural gas-fired combined-cycle power plant in Mexicali, Baja California, the 2010 acquisition of US$300 million of Mexican energy infrastructure assets from El Paso Corporation, which includes a joint venture with Pemex Gas,

and a US$200 million investment in expanding the Gasoducto Rosarito and TGN systems. The projects currently under construction are: Energía Sierra Juárez, Sonora Pipeline, Ethane pipeline project, Los Ramones I Pipeline and Los Ramones Norte Pipeline.

- ***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 its customers are required to pay it regardless of whether they actually use their contracted capacity, which helps provide it with steady and predictable long-term cash flows. Substantially all of these contracts are with stable, credit-worthy, private counterparties or with state-owned entities and are US dollar-denominated. In addition to enhancing the stability of cash flows, these firm capacity contracts also minimize the Company's direct exposure to commodity price risk. The current fee structure minimizes the Company's market risk in that rates are regulated by the CRE, and are adjusted regularly to account for inflation or fluctuations in the Rate of exchange.

- ***Broad footprint of energy assets covering wide market opportunity set.*** The Company is the only energy company with assets diversified across the entire energy infrastructure value chain that is open to private investment in Mexico, including pipelines, LNG, natural gas distribution and the power generation business. Given its scale, geographic position and diverse asset base, the Company considers it is ideally positioned to continue to expand and build out its platform of energy infrastructure assets. Given its proven track record as a pioneer in private investment in Mexican infrastructure projects and its relationship with the most important players in the industry, the Company is well situated to enter new sectors of the industry as new investment opportunities are opened to the private sector, due to the new text of articles 25, 27 and 28 of the Constitution. In addition, as the majority of its energy infrastructure assets are located across Northern Mexico, the Company is strategically positioned to be a key player in the growing demand for the importation and transportation of hydrocarbons across the Mexico—U.S. border.

- ***Pioneer in developing Mexico's private energy infrastructure.*** The Company is one of the few privately held companies in Mexico that owns and operates energy infrastructure, and it was one of the first privately- held companies to become involved in the Mexican energy infrastructure market. Since the Mexican government opened the natural gas sector to private investment in 1995, the Company has invested approximately US$2.8 billion in energy infrastructure in the country, successfully expanding into several sectors as changes to Mexican regulations have opened up new areas to private investment. This experience as pioneers in owning and operating energy infrastructure in Mexico has helped it establish a leading position in the industry. Currently, the Company ranks first and second among private companies in terms of market share in the LNG and pipeline markets in Mexico, with approximately 50% and 28% of the market, respectively, according to the 2012 figures of the SENER. It is well-positioned to act as a first-mover in new energy markets as additional opportunities arise, capitalizing on its extensive experience.

- ***Strong history of compliance and positive relationships with Mexican regulatory bodies and government-controlled businesses.*** The Company has worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies over the past 17 years and it has 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 it intends to continue to nurture and build upon these positive relationships. The Company also has long-term contractual relationships with government-controlled energy companies (PEMEX and the CFE), as well as permits and authorizations to develop and operate its energy assets in Mexico.

- ***Experienced management team.*** The Company's management team has extensive experience in the energy infrastructure sector. The members of its senior management team have an average of over 17 years of experience operating and developing assets in the Mexican energy sector. They have the knowledge and skills necessary to successfully and safely manage all of the Company's assets and operations and the development expertise necessary to expand its existing footprint and enter into new energy sectors as opportunities arise. It believes its management team is one of its main competitive strengths relative to its industry peers.

- ***World-class parent company.*** The Company also benefits from the strong support of its indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale. Sempra Energy, based in San Diego, California, is a Fortune 500 energy services company, with an income of approximately $10.5 billion dollars in 2013. The 17,000 employees of Sempra Energy companies serve more than 31 million consumers worldwide. Through its relationship with Sempra Energy, the Company expects to continue to have access to a significant pool of strong commercial relationships throughout the energy industry and broad operational, commercial, technical, risk management and administrative infrastructure and support. The Company believes this access should, among other things, continue to maximize the operational and financial performance of its assets and enhance the efficiency of its current operations as well as its growth and expansion projects.

- ***Low debt levels.*** As of December 31, 2013, the total unpaid balance of the Company was US$434 million, and its debt-to-adjusted-EBITDA ratio of 1.43 times. This translates into a balance sheet flexibility to competitively pursue acquisitions and organic growth opportunities and new greenfield opportunities.

Strategy

The Company expects to continue its strategy of investing in a combination of diversified energy assets in that are capable of generating stable and predictable long-term cash flows. A key aspect of the Company's strategy is to leverage its expertise and relationships in expanding into new energy sectors that it anticipates could open as changes to Mexican regulations allow more private investment in the energy sector. The Company seeks to grow by investing capital at attractive rates of return in existing brownfield and new greenfield projects, improving its position in existing businesses or acquiring new businesses, and establishing partnerships or joint ventures in strategic projects. The Company generally focuses on projects that have contracts that produce long-term, stable cash flows with counterparties with a high credit worthiness rating. The Company has contracted out a substantial portion of its existing capacity under long-term agreements with highly-rated, credit-worthy counterparties who are obligated to pay the amount of their contract regardless of whether they actually use their contracted capacity. It focuses on investments that either provide operational control of the asset or the ability to exert significant influence over the day-to-day operations and strategic direction of the respective company. The Company seeks to achieve these goals through the following strategies:

- ***Expand and optimize its existing assets.*** We have invested approximately US$2.8 billion in Mexican energy infrastructure projects across our business segments. Over the past three years the Company has invested an average of approximately US$150 million annually on assets. The Company constantly seeks to expand its existing system in a profitable manner. For example, as discussed above, it is currently developing (1) the Energía Sierra Juárez wind farm, with a capacity of up to approximately 155 MW in the initial phase (expected to become operational in the first half of 2015); (2) the Sonora Pipeline, a pipeline formed by two interconnected sections located in the states of Sonora and Sinaloa, with a combined length of approximately 835 km and total combined firm take-or-pay capacity of 1,280 MMcfd (13.3 MMThd), pursuant to two natural gas transportation service agreements entered into with the CFE. This pipeline will be located in a region that is not currently served by natural gas pipelines, and the Company anticipates that it will attract the interest of the existing local industries in contracting gas transportation services in the Sonora Pipeline and that the introduction of natural gas infrastructure there will foster new industry growth in the region as a result of the availability of new natural gas infrastructure, in the understanding that the above is subject to obtaining and/or complying with legal and contractual requirements. This existing and future demand in the region represents a potential opportunity to expand the Sonora Pipeline; (3) the Ethane Pipeline project, an ethane duct approximately 224 km long with a design capacity of up to approximately 151.9 MMfcd (2.7 MMThd), which is expected to be in operation in the first half of 2015; (4) Los Ramones I Pipeline, an approximately 114 km natural gas pipeline transportation system, 48" diameter and a transportation capacity in its final stage of 2.1 Bpcd; and (5) Los Ramones Norte Pipeline, a natural gas pipeline transportation system of approximately 441 km long.
- ***Grow the joint venture with Pemex Gas.*** The joint venture with Pemex Gas has provided the Company with substantial opportunities for the development of natural gas and LPG pipelines and storage facilities and transportation of ethane. The Company continues to seek additional growth through this joint venture by adding contracted energy infrastructure projects to its existing asset base.
- ***Continue to expand the network of energy assets.*** As pioneers in private investment in the Mexican energy industry, the Company is well-positioned to increase its revenues and profitability by expanding into new energy sectors are opened to private investment by the anticipated legislative changes. The Company believes there are numerous long-term expansion opportunities available to its existing asset base, such as building additional natural gas, ethane and LPG pipelines and storage facilities, connecting the Mexicali power plant to the CFE’s electrical grid and implementing additional phases of development at the Energía Sierra Juárez wind generation project, which is designed to include up to 1,200 MW of capacity at full build-out. The Company will continue to seek to develop and acquire assets capable of producing attractive rates of return, primarily through long-term, firm capacity contracts that generate stable cash flows.
- ***Long-term investment in energy infrastructure assets.*** We believe continued economic growth in the country should drive increases in overall energy consumption and require significant additional investments in energy infrastructure assets. The SENER expects that by 2025 demand for natural gas and electricity will increase from current levels by 35.2% and 64.8%, respectively. In addition, the integration of infrastructure at the Mexico – U.S. border offers significant opportunities to develop additional resources to meet the strong demand in both countries. The Company believes these factors and the historical under-investment in energy infrastructure in Mexico have resulted in an insufficient energy supply to meet the country’s future needs, in consequence providing significant investment opportunities to capitalize on its business strategy.
- ***New opportunities derived from the Energy Reforms.*** On December 20, 2013, the President of the Republic signed the decree amending the Constitution in energy matters passed by Congress and the majority of the state congresses. With the decree, articles 25, 27 and 28 of the Political Constitution of the United Mexican States are amended, allowing private investment in the exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution of petroleum product, and in the transmission and distribution of electricity. To date the secondary laws that will define the details of private investment in the mentioned business sectors have not yet been passed.
- ***Seek opportunities in liquefaction.*** Currently the margins between natural gas prices in the U.S. and elsewhere in the world provide unique opportunities to export LNG and several participants in the industry are developing LNG liquefaction and export

facilities in the United States and Canada. Given the Company's proximity to the Mexico–U.S. border and the location of its existing infrastructure, the Company believes its facilities are well positioned to take advantage of potential LNG liquefaction and export opportunities, subject on obtaining governmental authorization, as well as market demand and other factors.

Gas Segment

- *Natural gas and LP gas transportation*

The Company owns and operates several systems for receiving, transporting, compressing, storing and delivering natural gas and LPG throughout the states of Baja California, Chihuahua, Jalisco, Nuevo León, Sonora and Tamaulipas. These systems include:

  - more than 500 km, of natural gas pipelines with the capacity for the transportation of over 5,700 MMcfd (59.3 MMThd);
  - six natural gas compression stations with an aggregate of over 155,000 horsepower;
  - 190 km, of pipelines with capacity for the transportation of over 30,000 MMcfd (1.6 MMThd) of LP Gas; and
  - an LPG storage facility with a total of 80,000 Bbl (4.4 MMTh) of LPG storage capacity at the Guadalajara LP Gas Terminal.

- The current Gas segment assets include the Gasoducto Rosarito, TGN, the Aguaprieta pipeline and the Naco compression station, as well as the assets held by the Company's joint venture with Pemex Gas, in which the Company holds a 50% interest. This joint venture with Pemex Gas owns the San Fernando pipeline, the Samalayuca pipeline, the TDF LPG pipeline system, and the Gloria a Dios station, as well as the Guadalajara LPG Terminal that began operating in December, 2013. Through the joint venture, the Company is building the Ethane pipeline project and the Los Ramones I and Los Ramones Norte Pipelines.

- All the pipelines and compression stations that are being constructed have long-term contracts, primarily on a firm basis, with credit-worthy, leading industry players, including Shell, Gazprom, the CFE, InterGen, TransCanada and Pemex Gas. The following is an overview of the Company's Gas segment existing assets:

  - *Gasoducto Rosarito:* A system comprised of three sections approximately 302 km long in aggregate, as well as a 30,000 horsepower compression station. The system starts at the valve that interconnects it with the North Baja Pipeline system at the Mexico – U.S. border and extends west to the valve that interconnects it with the Company's TGN near the city of Tijuana, and then turns south to the Company's LNG terminal. This system's bi-directional capacity allows the Company to use natural gas supplies from either the U.S. domestic natural gas market or from its LNG terminal. The three sections comprising this system are known as the "Rosarito Mainline", the "LNG Spur" and the "Yuma Lateral." The Company has entered into 15 long-term firm transportation services agreements with the Gasoducto Rosarito system's customers, which represent an aggregate maximum daily capacity of 3,450 MMcfd (35.9 MMThd) equivalent to 90% of the system's design capacity, contracted on a firm basis.

  - *TGN:* A system comprised of approximately 45 km of 30 inch diameter pipeline and an 8,000 horsepower compression station, with a capacity of 940 MMcfd (9.8 MMThd). The system interconnects with the Gasoducto Rosarito in the Tijuana area, and extends north to interconnect with the SDG&E pipeline system, an affiliate of the Company, at the Mexico – U.S. border, and southwest to the CFE's 1,300 MW, Presidente Juárez power plant in Rosarito, Baja California. The full amount of the system's design capacity is contracted through 2028 under firm transportation services agreements.

  - *Aguaprieta Pipeline:* A system comprised by approximately 13 km of 20-inch diameter pipeline with a designed 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 CFE. The existing firm transportation services agreements with the Aguaprieta pipeline's customers represent an aggregate capacity of 52 MMcfd (0.5 MMThd), equivalent to 25% of the system's design capacity, contracted on a firm basis. These 25-year contracts, executed in 2002, establish a rate which will allow the Company to recover the entire cost of this pipeline. This system was built foreseeing the possible construction of two additional power generating plants in the same area by the CFE. One of these plants is currently under construction and, once it is concluded, it will represent an opportunity to obtain additional income.

- *Naco Compression Station.* This compression station, with 14,340 horsepower, is installed on the Naco-Hermosillo natural gas transportation system belonging to Pemex Gas, in the town of Naco, Sonora, with a compression capacity of 90 MMcfd (0.9 MMThd). The total of the compression station's installed capacity is contracted on a firm basis with Pemex Gas to 2021. This contract can be extended for an additional five years at the option of Pemex Gas.

- *Joint Venture with Pemex Gas:* The Company acquired a 50% interest in the joint venture with PGPB in April 2010. PGPB is PEMEX subsidiary in charge of gas processing, transportation and marketing, among other activities. PGPB currently operates approximately 10,300 km of pipelines throughout Mexico. This joint venture owns the San Fernando pipeline, the Samalayuca pipeline, the TDF LPG pipeline system, the Guadalajara LP Gas Terminal, and is currently developing the Los Ramones I pipeline and Los Ramones Norte pipeline. These assets are described in more detail below:

    - *San Fernando Pipeline:* This fully bi-directional system consists of approximately 114 km of 36- inch diameter pipeline and two compression stations with an aggregate of 90,000 horsepower. It has a transportation capacity of 1,000 MMcfd (10.4 MMThd) and a compression capacity of 1,460 MMcfd (15.2 MMThd). The pipeline runs from the El Caracol compression station in the city of Reynosa, Tamaulipas to the Los Indios compression station in San Fernando, Tamaulipas. The San Fernando pipeline's sole customer, Pemex Gas, has total maximum capacity of the system contracted on a firm basis to 2023. Pemex Gas also purchases the extra compression capacity of this pipeline on an as-needed basis pursuant to an interruptible transportation services contract.

    - *Samalayuca Pipeline:* This system consists of approximately 37.7 km of 24-inch diameter pipeline with a capacity of 272 MMcfd (2.8 MMThd). This pipeline has been in operation since 1997 and was the first privately-owned natural gas pipeline system in Mexico. The pipeline runs from Ejido San Isidro, Chihuahua, to the CFE's Samalayuca power plant and interconnects with a 16-inch diameter pipeline that is wholly owned by Pemex Gas, which runs from Ciudad Juárez to Chihuahua. Existing firm transportation services agreements with the Samalayuca pipeline's customers have 140 MMcfd (1.5 MMThd), or 51% of the system's design capacity, contracted on a firm basis.

    - *Gloria a Dios Compression Station.* This 14,340 horsepower compressor is installed at the interconnection point of the Samalayuca pipeline and Pemex Gas's Ciudad Juárez – Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. Under a compression and transportation services agreement with the CFE, the compression station's sole customer, 60 MMcfd (0.6 MMThd), or 100% of the design capacity, of compression services are contracted on a firm basis through 2021. 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 at the Gloria a Dios interconnection of the Samalayuca pipeline and Pemex Gas's pipeline system.

    - *TDF LPG Pipeline.* This LPG system consists of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 30,000 Bld (1.6 MMThd) of LPG, a pumping station near the pipeline's point of reception and a delivery facility with two storage spheres, with a combined capacity of 40,000 Bld (2.2 MMTh). This pipeline, which was the first private LPG pipeline in Mexico, runs from Pemex Gas's Burgos LPG production area in the state of Tamaulipas to a delivery facility near the city of Monterrey, Nuevo León. The existing firm transportation services agreement with Pemex Gas, the pipeline's sole customer, the Company has 100% of the system's installed capacity, contracted on a firm basis through 2027.

    - *Guadalajara LPG Terminal.* This LPG storage facility is located near Guadalajara, Jalisco, with a capacity of 80,000 Bld (4.3 MMTh). The terminal consists of four storage spheres, each with a capacity of 20,000 Bld (1.1 MMTh), 10 loading bays and an interconnection to the Pemex Gas LPG pipeline system. The terminal commenced commercial operations in December 2013. We have entered into a 15-year storage services agreement with Pemex Gas to utilize the full capacity of the terminal.

    - *Ethane Pipeline Project.* Transportation system that includes approximately 224-km pipeline with a design capacity of up to approximately 151.9 MMcfd (2.7 MMThd) that will carry ethane from the PEMEX processing facilities located in the states of Tabasco, Chiapas and Veracruz to the ethylene and polyethylene polymerization plant for the Etileno XXI project, located in the state of Veracruz, property of Braskem IDESA. It is estimated that the investment of approximately US$330 million, is expected to be

paid for entirely by the joint venture without any additional capital contributions from the partners. This will be the first privately-owned ethane pipeline in Mexico.

- *Los Ramones I Pipeline*. This natural gas transportation system is part of the joint venture with Pemex Gas, of approximately 114 km long, 48 inches in diameter and two compression stations. The system commences at the United States border of Tamaulipas State and it will interconnect with the Los Ramones Norte Pipeline and the National Gas Pipeline System in Ramones; Nuevo León. In July, 2013 the signing of the contract for natural gas transportation for a period of 25 years was announced, for transportation of the whole transportation capacity of the pipeline.

- *Los Ramones Norte Pipeline.* Pipeline that is part of the joint venture with Pemex Gas, with a length of 441 km, 42 inches in diameter and two compression stations. The system commences at the interconnection with Los Ramones I in Ramones, Nuevo León, and interconnects with the Los Ramones Sur Pipeline in San Luis Potosí. Gasoductos de Chihuahua, in partnership with TAG Pipelines, will develop the Los Ramones Norte pipeline.

LNG Storage.

- *Liquefied Natural Gas Business*

  - Our LNG regasification terminal, located near Ensenada, Baja California, began operations in 2008 and was the first west coast LNG receipt facility in the Americas. This terminal receives and regasifies the LNG and delivers the resulting natural gas to the Gasoducto Rosarito system for its later distribution in Baja California and the United States. The Company's LNG business also purchases LNG on its own, for its storing and regasification in this terminal and its later sale to independent clients. The LNG terminal has a storage capacity of 320,000 m^3, (73.3 MMTh) in two tanks, each of 160,000 m^3 (36.6 MMTh), and it is designed to operate a maximum send-out capacity of 1,300 MMcfd (13.5 MMThd). The capacity of the LNG terminal is equivalent to approximately an eighth of the internal consumption needs of the country.

  - The LNG terminal’s primary revenue stream is generated through long-term firm storage services agreements with its third-party customers such as Shell and Gazprom, as well as with LNG Marketing, a Company subsidiary. Currently, 50% of the LNG terminal’s storage and send-out capacity is under contract with Shell and Gazprom, collectively, and the remaining 50% is under contract with LNG Marketing. The obligations of LNG Marketing are backed by Sempra Energy, the Company's indirect controlling shareholder, in the amount of US$282 million. 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 LNG terminal’s LNG storage and natural gas send-out capacity is fully contracted through 2028 under firm storage services agreements with these customers.

  - LNG Marketing generates revenues by purchasing LNG for storage and regasification in the LNG terminal, and selling natural gas pursuant to natural gas supply contracts that cover up to 100% of its LNG terminal natural gas send-out capacity. LNG Marketing also generates revenues through sales of natural gas it purchases in the continental market. The Company has supply contracts signed with the CFE, which uses the natural plant at its Presidente Juárez power generating plant, and with JPM Ventures Energy, a Mexican affiliate of J.P. Morgan, which in turn sells the natural gas to the Termoeléctrica de Mexicali power plant and to other clients. If Sempra Natural Gas does not deliver the amount of LNG to LNG Marketing pursuant to the long-term LNG supply contract for reasons other than a *force majeure* event, it makes payments to LNG Marketing to cover the fixed costs associated with terminal and pipeline capacity.

- *Natural Gas Distribution*

  - The Company owns and operates a natural gas distribution utility, Ecogas that covers three local 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 its approximately 3,468 km of pipelines, this system currently serves approximately 99,000 industrial, commercial and residential customers.

  - The revenues from this business are derived from service and distribution fees charged to its customers through monthly invoices. The price paid to purchase natural gas is based on the international price indexes, and is passed through directly to the customers. Even so, the Company undertakes certain hedging activities on these prices in order 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 current natural gas price structure minimizes the market risk to which the Company is exposed, as the rates are adjusted regularly based on inflation and the fluctuations in the rate of exchange. The adjustments for inflation consider the cost components incurred both in Mexico and in the United States so that the costs incurred in the latter country can be included in the final rates.

- For the year ended on December 31, 2013, the gas segment reported revenues of approximately US$508 million, representing 75% of our total consolidated revenues, and adjusted EBITDA of US$290 million, representing 95% of the Company's total adjusted EBITDA for the year. The revenues for 2013 do not include the participation in the revenues of the joint venture with Pemex Gas, of US$35 million, the results of which are entered into accounts by the participation method. However, the adjusted EBITDA of the Gas segment includes a 50% participation in the adjusted EBITDA imputable to the joint venture.

Power Segment

Natural Gas Fired Power Generation

- The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located in the city of Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with our Gasoducto Rosarito which allows it to receive regasified LNG from our LNG terminal as well as gas supplied from the United States through the North Baja Pipeline's system. This facility is a modern, efficient, combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California, and in February 2013 this facility received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency. The plant is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to CAISO power grid at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California. The Termoeléctrica de Mexicali plant had generated revenues by selling electricity to our U.S. affiliate Sempra Generation, but under a new agreement effective as of January 1, 2012, we sell this electricity to consumers in CAISO power grid, and Sempra Generation acts as marketing and scheduling agent for these sales. While the entire output of the plant is currently connected to the U.S. grid, the physical interconnection may be modified so that a portion or all of the plant's output could be delivered to the CFE's system in Mexico at the La Rosita substation, if an approximately two km transmission line is built and the necessary permits are obtained.

Wind Power Generation Business

- The Company's Power segment is developing the Energía Sierra Juárez wind generation project with up to 1,200 MW of projected capacity, to be developed in several phases. This project is located in the Sierra de Juárez Mountains in Baja California. The initial stage of the project consists on the installation of 47 wind generators and will be located very close to the United States border, 112 km from San Diego, California. On May 21, a Wind Turbine Supply and Warranty Agreement was signed with Vestas, for the purchase of 47 wind turbines, with the option of purchasing 5 additional wind turbines, and Vestas in turn will provide maintenance service to the wind turbines. The Company estimates that this initial stage will require a total investment of approximately USD$320 million. The project will interconnect to the Southwest Powerlink at the East County Substation in eastern San Diego County being built by SDG&E via a new cross-border transmission line, and could potentially also connect directly with the Mexican power grid. Construction of the East County Substation was approved by the California Public Utilities Commission on June 21, 2012. The Company began construction of the project in 2013 and its completion is estimated in 2015. The Company expects that the full amount of electricity from the up to 47 wind turbines that will be installed initially (for approximately up to 155 MW) will be sold to the Sempra Energy affiliate Energía Sierra Juárez U.S. , which has signed a 20-year power purchase agreement with SDG&E.
- For the year ended on December 31, 2013, the Company's power segment had revenues of approximately US$168 million, representing 25% of its total consolidated revenues, and adjusted EBITDA of US$17 million, representing 5% of its total adjusted EBITDA for the year.

Since 1995, the Company has invested approximately US$2.80 billion in energy infrastructure across its two business segments, and it continues pursuing several growth opportunities (such as the Sonora Pipeline project, the Ethane pipeline project, the Los Ramones I Pipeline, Los Ramones Norte Pipeline and the Energía Sierra Juárez wind generation project, all of which are currently under development), both directly and through its joint venture with Pemex Gas and other partners.

Given its established track record in developing and operating energy infrastructure in Mexico and in working with the CFE and Pemex Gas, the Company believes that it is well situated to benefit from this type of future development opportunities.

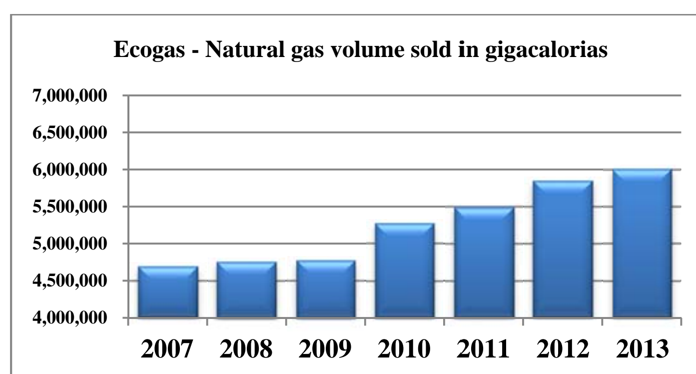
ii. Distribution Channels

Distribution

Overview

Ecogas, a Company subsidiary was awarded the first distribution permit given to a private company to build and operate a natural gas distribution system in Mexico under the 1995 NGR. Through its approximately 3,468 km of pipelines, the Ecogas distribution system currently serves 99,000 residential, commercial and industrial customers in three distribution geographic areas in the north of the country: 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).

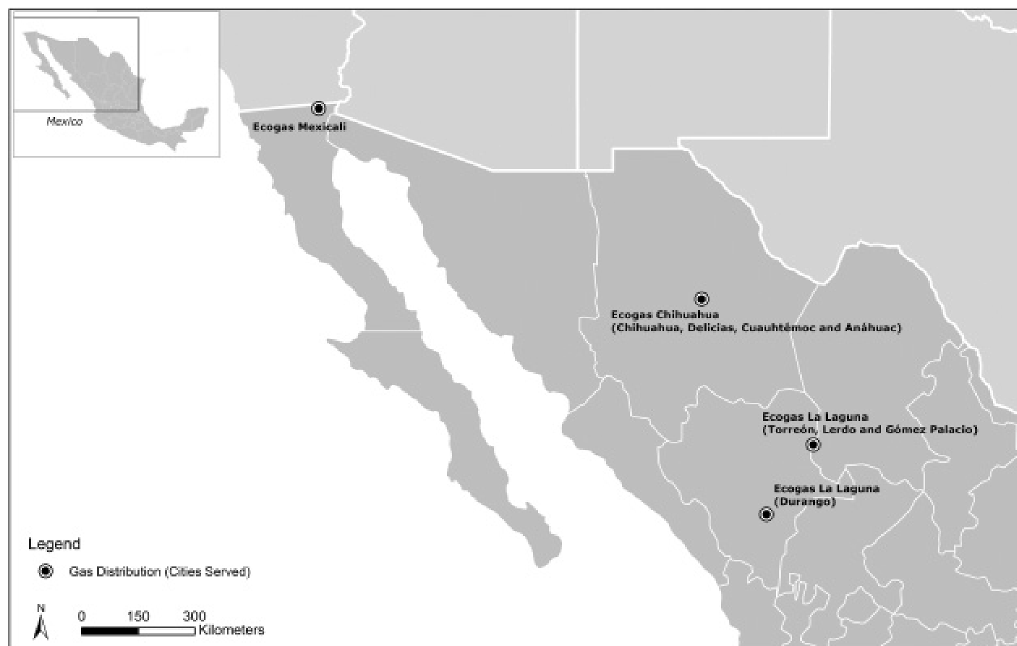
In addition to having obtained the first permit granted since the 1995 NGR, the Company was the first private distributor to fulfill its obligations to the government in what respects to the amount of its investment and its number of customers. Since the Ecogas system commenced operations, the Company has been committed in promoting the use of natural gas as a better alternative than LP Gas and other fuels among the industrial, commercial and residential sectors of each of its markets. The following chart shows the growth of the Ecogas system in volume of natural gas sold over the last seven years.



The Company's natural gas distribution business includes the following key activities:

- Purchasing natural gas from suppliers;
- Receiving natural gas into its systems and transporting it through its distribution network, including the maintenance of its pipelines and other equipment;
- Connecting customers to the Ecogas system;
- Delivering natural gas into `the customers' homes and businesses;
- Metering, invoicing and collecting payment for gas delivered;
- Customer service activities for existing customers; and
- Marketing activities to increase its customer base.
- The distribution business generates revenues from service and distribution fees charged to customers through monthly invoices. The price paid to purchase natural gas is based on the international price indexes, and is passed through directly to the customers. From time to time, the Company has undertaken certain hedging activities on these prices in order to reduce potential volatility in the price for natural gas that its customers ultimately pay. The service and distribution fees charged by the Ecogas business are regulated by the CRE, which performs a review of rates every five years and monitors prices charged to end-users. The rates for the Mexicali and Chihuahua distribution areas are scheduled to be reviewed in 2013 and will cover the 2014-2019 period; and the rates for the La Laguna-Durango distribution zone are scheduled to be reviewed in 2014 to cover the 2015-2020 period. The current natural gas price structure minimizes the market risk to which the Company is exposed, as the rates are adjusted regularly based on inflation and the fluctuations in the Rate of exchange. The adjustments for inflation consider the cost components incurred both in Mexico and in the United States so that the costs incurred in the latter country can be included in the final rates.

The following map shows the location of the Ecogas system 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).



The following table summarizes the main characteristics of the Ecogas service areas as of December 31, 2013.

	Mexicali	Chihuahua	La Laguna-Durango	Total
System Length (km)	508	1,986	974	3,468
Number of Customers				
Residential	12,101	58,126	26,020	96,247
Commercial/Industrial	241	1,519	658	2,418
Distribution (MMcfd)				
Residential	0.4	3.7	0.9	5.0
Commercial/Industrial	21.4	29.2	10.8	61.4

Natural Gas Market Opportunities

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 its business from the traditional Mexican LPG distributors, which historically have held a strong position in the Mexican gas market, in particular with respect to the residential sector. The Company believes its excellent customer service and quick response time are key competitive advantages that have helped it to establish a solid reputation for quality and to build customer loyalty.

Customer Arrangements

Residential customers comprise 98% of the distribution customers (in terms of number of accounts), and contribute 58% of its profit margin. Generally, the Company does not typically enter into long-term agreements with its residential customers, and they pay the rates that are established by the Energy Regulatory Commission. The Company invoices these customers on a monthly basis and their service can be terminated by them or by the Company at any time.

The commercial and industrial customers together comprise 2% of the number of customers (in terms of number of accounts), but are responsible for 92% of the system's throughput volume and 42% of the profit margin of the business. The Company has entered into long-term supply contracts with some of these customers. Although the Energy Regulatory Commission establishes the maximum rate the Company may charge for the distribution service, the Company may negotiate different rates according to the type of customer, the volumes and the duration of the contract. In certain cases the customers are required to provide guarantees in the form of letters of credit or cash deposits.

iii. Patents, Licenses, Trademarks and Other Agreements

Intellectual Property

The Company and its affiliates currently hold several registered trademarks in Mexico, including Ecogas name and logo. The titles for these brands are current and the Company expects that they will be renewed they will be renewed prior to their expiration in accordance with applicable laws. In general, trademark registrations can generally be renewed indefinitely every ten years as long as the brands are being used. To the Company's knowledge, there are no disputes regarding the ownership of its trademarks. To the extent the Company considers any trademarks owned by its affiliates to be material to its business, it will enter into license agreements with its corresponding affiliate for their use. The Company has no patents related to its business activities.

iv. Main Customers

Customers and Arrangements

The LNG terminal’s primary revenue stream is generated through long-term firm storage services agreements with its third-party customers such as Shell and Gazprom, as well as with LNG Marketing, a Company subsidiary. Each customer must pay for its full contracted nitrogen storage, send-out and production regardless of whether it actually delivers LNG to the LNG terminal. Customers also pay 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 the terminal and as well as of the natural gas that the Company delivers to the Gasoducto Rosarito system on their behalf.

The terminal’s total storage 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 issued by BNP Paribas in the amount of US$210.6 million; the obligations of Gazprom are currently backed by two standby letters of credit issued by BNP Paribas and Barclays Bank plc in an aggregate amount of US$73.2 million; and the obligations of LNG Marketing are covered by a financial guarantee from Sempra Energy, the Company's indirect controlling shareholder, in the amount of US$282 million. The amount of credit support required for Shell decreases over the life of the contract. The LNG Terminal's customers have also contracted for 100% of the nitrogen facility capacity of 12 MMcfd.

The terms of the firm storage services agreements with the LNG Terminal's customers, which are substantially similar amongst themselves, have been filed with the Energy Regulatory Commission and are governed by the provisions of the storage general terms and conditions, which may be amended by the terminal from time to time if approved by the CRE as part of the natural gas storage permit issued by it. For a description of the gas storage general terms and conditions, see the *“Regulation; Permits and Environmental Matters—Laws Applicable to Natural Gas Activities—Gas Storage General Terms and Conditions”* section.

Currently, 50% of the LNG terminal’s storage and send-out capacity is under contract with Shell and Gazprom, collectively, and the remaining 50% is under contract with LNG Marketing. The Company believes that the size and creditworthiness of these global energy companies serve to enhance the security and predictability of the terminal’s future cash flows. The existing customers can assign their LNG terminal capacity and/or nitrogen production to each other on a temporary basis, although the assigning customer remains liable for all payments, credit requirements and other obligations to the Company. Shell and Gazprom have also agreed to coordinate their shipments, storage and gas send-out, and to share their respective storage capacities since neither customer has contracted for sufficient storage capacity to unload a standard-sized LNG marine tanker. Shell and Gazprom continue to pay their respective monthly LNG storage charges, but can reallocate their joint LNG storage and natural gas send-out capacity between them. If the Company expands the capacity of its LNG terminal, it will be 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.

The Company will not incur in liability in the event that it experiences a *force majeure* event and as a result is unable to provide the contracted and requested service. However, payments from customers shall be suspended during any *force majeure* event that the Company experiences to the extent that service is made unavailable, and its customers can terminate their firm storage services agreements if a *force majeure* event occurs that lasts for two consecutive years and significantly affects their service. The customer's payment obligations shall not be suspended if they are affected by a *force majeure* event.

The Company is required to pay a contractual penalty 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 contractual penalty.

LNG and Natural Gas Purchase and Sale Operations

The Company, through its subsidiary LNG Marketing sells natural gas to third parties both in Mexico and to Sempra Natural Gas at the Mexico – U.S. border. Currently, the Company has supply contracts for a total of between 247 MMcfd (2.6 MMThd), and 495 MMcfd (5.2 MMThd) of natural gas to these customers, including the CFE, to supply its Presidente Juárez power plant in Rosarito, Baja California; and JPM Ventures Energy, which uses the natural gas to supply the Termoeléctrica de Mexicali power plant pursuant to a separate contract. Through LNG Marketing the Company has contracted to purchase LNG from Sempra Natural Gas and deliver it to the LNG terminal, where LNG Marketing has contracted firm capacity for storage and regasification. LNG Marketing also has firm capacity contracted to transport the natural gas to be delivered to the afore-mentioned customers through the Company's pipelines. To the extent that the Company's reserves of regasified LNG are insufficient to meet its obligations to the CFE and JPM Ventures Energy, the Company covers the missing gas by purchasing the gas from Sempra Natural Gas. The rate paid by the Company to Sempra Natural Gas for this supply is such that it is economically irrelevant to the Company if it purchases this gas in the market or buys LNG from Sempra Natural Gas.

The Company delivers natural gas to the CFE 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 CFE. In addition to payments for natural gas delivery, the CFE also pays the Company a fixed monthly fee to cover the obligations of LNG Marketing under a transportation agreement the TGN system. The natural gas supply contract with the CFE expires in 2022. In addition, both the CFE and the Public Administration Ministry may also terminate this agreements 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 the Nation or if, for justified cause, the CFE no longer requires the supply of natural gas, in each case subject to a hearing and other due process procedures.

The Company supplies JPM Ventures Energy with natural gas that it uses to supply the full requirements of the Termoeléctrica de Mexicali power plant pursuant to a separate contract between JPM Ventures Energy and Termoeléctrica de Mexicali. JPM Ventures Energy purchases this gas from LNG Marketing at variable prices based on the relevant natural gas price index value at the time and other factors. The Company also pays JPM Ventures Energy fees for acting as the scheduling agent to coordinate the sales of natural gas under the agreement with the CFE. During the year ended December 31, 2012, these scheduling fees amounted to approximately US$1.3 million. The agreements with JPM Ventures Energy expire in September 2014.

LNG Purchase and Sale Agreement with the Company's U.S. Affiliate

In November 2009, LNG Marketing México entered into an agreement with LNG International, a related party, whereby LNG International agreed to deliver and sell LNG to LNG Marketing from the commencement date of operations of the LNG Terminal. Accordingly, LNG Marketing entered into a transportation and storage service agreement to market the LNG. Due to a lack of LNG shipments, LNG Marketing México received payments from LNG International related to the losses and obligations incurred in 2013, and 2012, for USD$90,762 thousands and USD$107,754 thousands, respectively, which are presented within the revenues line item in the accompanying interim consolidated profit and loss statements.

On its part, Sempra Natural Gas, purchases LNG from various suppliers, including pursuant to a long- term contract with the Tangguh Project partners (a consortium of companies that produce LNG 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 shipments annually to other purchasers. Having non-divertible shipments available under the agreement between Sempra Natural Gas and the Tangguh Project partners increases the likelihood that the LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that it will be able to satisfy at least some portion of its natural gas customer commitments by selling regasified natural gas to its customers. The contract between Sempra Natural Gas and the Tangguh Project partners expires in 2029. The Company is a party to this contract solely in what respects to the scheduling of the deliveries of LNG shipments and the coordination of the use of its marine terminal by the other parties.

v. Applicable Law and Taxation
Regulations, Permits and Environmental Matters

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 in Mexico are governed by the Mexican Constitution together with a diverse body of laws, regulations, general provisions, guidelines and official technical standards. Although the Mexican Constitution restricts natural gas exploration and production activities in Mexico to the Mexican state, private sector enterprises such as the Company are allowed to participate in the storage, transportation and distribution of natural gas. In addition, the Company is subject to various laws applicable to Mexican companies in general and from February 2013, the Company is subject to standards applicable to issuers of securities registered with the NSR.

The Company is subject to the laws governing the following activities related to natural gas and LP Gas:

- ***Storage***, which includes receiving, storing, regasifying (if applicable) and delivering natural gas, LNG or LPG when the gas is kept in facilities other than pipelines.
- ***Transportation,*** which includes receiving, transporting and delivering natural gas or LP Gas in routes authorized by the Energy Regulatory Commission.
- ***Distribution,*** which includes receiving, transporting, delivering and marketing natural gas via pipelines within geographical zones defined by the Energy Regulatory Commission.

Storing, transporting and distributing natural gas are governed by the provisions of Article 27 of the Political Constitution, the CRE Law, the NGR guidelines issued by the CRE, the NOM, the terms and conditions set forth in the respective permits, and all the applicable permits. Storage and transportation of LP Gas are also governed by the provisions of the LP Gas Regulations.

Building and operating natural gas storage facilities, pipelines and distribution systems also require governmental permits and authorizations from federal, state and municipal authorities, including mainly a permit from the CRE, various environmental permits, real estate rights-of-way, municipal land-use permits, municipal construction permits and other authorizations. These permits are granted in accordance with the NGR and environmental, civil and urban development laws. In addition, permits issued by the CRE impose a series of regulatory obligations and specific terms and conditions commonly referred to as "general conditions"

Laws Applicable to Natural Gas Activities

Article 27 of the Constitution sets forth the general principles that regulate activities involving petroleum and other hydrocarbons, including natural gas. Previously, Article 27 of the Constitution 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, Congress passed a bill reforming Article 27 of the Constitution to allow private participation (Mexican or foreign) in the transportation, storage, distribution and marketing of natural gas, as well as the sale and marketing of natural gas by foreign entities. The NGR was published the same year.

Article 27 of the Constitution

According to the stipulations of the Political Constitution, the Article 27 of the Constitution Law grants the Nation direct, non-transferable and imprescriptible ownership of all hydrocarbons and provides that all activities related to these resources are reserved exclusively to PEMEX and its subsidiary entities. However, the Article 27 of the Constitution Law allows private sector enterprises to transport, store, and distribute hydrocarbon gases as well as to own and operate pipelines, facilities and related equipment in accordance with the applicable regulatory, technical and other regulations. The Law establishes that such permits are issued by the CRE.

On December 20, 2013, the President of the Republic signed the decree amending the Constitution in energy matters passed by Congress and the majority of the state congresses. With the decree, articles 25, 27 and 28 of the Political Constitution of the Unite Mexican States are amended, allowing private investment in the exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution of petroleum product, and in the transmission and distribution of electricity. To date the secondary laws that will define the details of private investment in the mentioned business sectors have not yet been passed.

The incursion by the Company in the new segments of the business open to private participation will depend on the specific projects adding substantial value and growth to our portfolio, mainly through obtaining synergies, and that they conform to our project selection strategy, such as the long-term projects with dollar denominated take-or-pay-contracts, and stable cash flows that are foreseeable in time.

Gas Storage General Terms and Conditions

The Gas Storage General Terms and Conditions regulate the LNG or LP Gas receiving and storing service (as may be the case), and are part of the respective agreements. The Gas Storage General Terms and Conditions are self-regulating provisions approved and registered by the Energy Regulatory Commission.

Below is a summary of the general terms and conditions applicable to the Company's permits:

Services. The Company provides storage services for its customers by receiving LNG or LPG at the entrance to its storage facilities, and delivering the resulting natural gas (less that required for the operation of the respective terminal) to its customers at any authorized point of delivery.

Access to Available Storage Capacity. The Company is required to provide customers with open and non-discriminatory access to the available storage capacity at its facilities that is not yet under contract pursuant to a firm storage services agreement. Customers can access such capacity by executing a relevant services agreement, provided that they have the necessary pipeline connection to the Company's facilities at the points of delivery specified in their services agreement. In addition, customers must provide the Company with a financial guarantee covering compliance of their obligations under the services agreements and the General Storage Conditions.

Firm Base Storage Service. Firm storage services consist of storing LNG or LPG received at the reception 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 provisions of the services agreement. The Company's firm storage services may not be subject to reductions or interruptions, except in the cases of the exceptions specified in the General Storage Terms and Conditions and the relevant services agreement.

Interruptible Base Storage Services. Interruptible storage services consist of storing LNG or LP Gas up to the maximum storage quantity specified in the relevant services agreement. Customers have the right to request this service while their services agreements are in effect. However, interruptible storage services are subject to any available capacity remaining after the firm storage services obligations have been fulfilled.

Interruption of the Service. Customers are not entitled to receive storage services if they are not in compliance with all of their storage services payment obligations to the Company, unless they provide a satisfactory guarantee to cover the overdue payment, subject to the Company's consent.

Creditworthiness. Customers must be solvent or provide evidence of creditworthiness within 30 days after the Company's request to be eligible to receive storage services. If sufficient evidence of creditworthiness as described above cannot be provided, customers must provide a financial guarantee securing their obligations under their agreements and the General Storage Terms and Conditions.

Suspension, Reduction or Modification of the Storage Service. The Company may suspend the storage service if the customers breach their obligations under their agreements, and ten days having elapsed without this breach being remedied, may terminate the respective agreement. The services agreement will terminate automatically in the event of a customer's insolvency, and the Company will have the right to make a claim under any financial guarantee granted by such customer. If the Company suspends the storage service without due cause, it shall pay the user an amount equal to five times the amount of the service charge that would have been at such customer's disposal if the suspension had not occurred. This amount shall be calculated pursuant i the provisions of the Storage General Terms and Conditions.

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

Payments**.** If customers breach their payment obligations, the overdue amounts shall accrue interest at a daily rate calculated pursuant to the Storage General Terms and Conditions. Failure to pay within a certain period of time provided in the Storage General Terms and Conditions may result in suspension of service by the Company.

Responsibility, Warranty and Assignments. The Company is deemed to be in control of and responsible for any stored LNG or LPG from the time of receipt until its delivery to the customer. Customers are deemed to be in control of and responsible for LNG or LPG until its receipt by the Company, or after it is delivered to the customer.

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 respective storage system, with the prior authorization of the CRE.

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

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

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 *force majeure* event occurred.

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

Dispute Resolution. All disputes that may arise will be resolved through arbitration.

Rates. The Company is authorized to negotiate rates different to those established in the rate lists approved by the Energy Regulatory Commission. In any case, the rates for interruptible services must be inferior to the firm base service rates. The Company is obliged to publish the applicable rates annually in the Federal Official Gazette and in the official gazettes of the states in which it provides distribution services.

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

Connection Policies. The Company has an obligation to allow other entities to connect to its systems, subject to the existence of available capacity to perform the required service, the interconnection being technically viable, and provided that the party seeking the connection bears all costs related to the interconnection.

Transportation General Terms and Conditions

The transportation general terms and conditions are approved and registered with the CRE with respect to each gas transportation permit that it grants. The Gas Storage General Terms and Conditions *(Términos y Condiciones Generales para la Prestación del Servicio de Transporte de Gas Natural)* are self-regulating provisions approved and registered by the CRE.

Although the transportation general terms and conditions applicable to the Company's various permits are substantially similar, there may be certain provisions that vary between each permit, and in consequence between one service agreement and another. Below is a summary of the main provisions that are common to the general terms and conditions for all of the gas transportation permits and their respective agreements:

Term. The gas pipeline transportation general terms and conditions are in effect for the term of the corresponding permit granted by the CRE.

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

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

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

Creditworthiness. Under the Transportation General Terms and Conditions, the Company is not obliged to provide services to customers with outstanding balances with us or impaired creditworthiness. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee securing their obligations under the Transportation General Terms and Conditions.

Assignment. Customers may assign their capacity in the Company's systems with the Company's prior written consent, provided that the assignee complies with the Transportation General Terms and Conditions, including providing the required guarantees.

Payments. If customers breach their payment obligations, the overdue amounts shall accrue interest at the daily rate stipulated in the Transportation General Terms and Conditions. Failure to pay within the period established for this in the Transportation General Terms and Conditions, which may vary from ten to ninety days, may result in suspension of service and termination of the agreement by the Company.

Interruption of the Service. The Transportation General Terms and Conditions applicable to most of the Company's permits provide that the Company will not be not liable for interruptions, restriction or modification of the transportation service as a result of a *force majeure* event, in the event of failure of a customer's facilities, in the event interruption is required for the maintenance extension or modification of the transportation system, or in case of breach of obligations by the customer. Under the Transportation General Terms and Conditions applicable to certain permits, in some cases customers are required to continue paying the applicable capacity fee during the interruption period. A service interruption, other than as described above, requires the Company to provide a premium to the affected customer equivalent to five times the amount of the service that would have been available if such interruption had not occurred.

In the event of an interruption attributable to a *force majeure* event that lasts more than five business days, the Company must file with the CRE, for its approval, the corrective plan that will be applied to face the situation.

A *force majeure* event is any foreseeable or unforeseeable but unavoidable event that hinders or prevents the affected party from complying with its obligations under a storage services agreement. After the term established in the Transportation General Terms and Conditions (which may vary from one permit to another) from the date of such *force majeure* event, the affected party may terminate the services agreement.

Compensation. Customers are obliged to compensate the Company and its officers, agents, employees and contractors for any damage or loss suffered by the Company or such persons as a result of the breach of the customer's contract obligations.

Dispute Resolution. All disputes that may arise will be resolved through arbitration. The disputes in which the customer is considered a consumer in terms of the Federal Law Consumer Protection Law, any dispute with such consumer will be resolved in accordance with the provisions of such law.

Distribution General Terms and Conditions

The Natural Gas Distribution Terms and Conditions regulate the reception, delivery and marketing of natural gas. The Natural Gas Distribution Terms and Conditions applicable to the permit corresponding to each geographical area are self-regulatory provisions approved by the CRE, and are registered before this entity.

Although the transportation general terms and conditions applicable to the Company's various permits are substantially similar, there may be certain provisions that vary between each permit, and in consequence between one service agreement and another. Below is a summary of the main provisions that are common to the Natural Gas Distribution Terms and Conditions for all the gas distribution permits and their respective agreements:

Services. The Company renders firm and interruptible distribution services by means of the reception of natural gas at one or several reception points in its systems, and the delivery of a similar amount at a different point within the same system. In the event of interruption, restriction or modification of the service, the firm base services will have priority over the interruptible base services. In the event of an interruption of the service without cause, the Company will be obliged to compensate its customers in an amount equivalent to five times the amount of the service that would have been available if such interruption had not occurred.

Interconnection. After the expiration of the exclusivity periods granted to the Company by the CRE for a certain geographic area, the Company is obliged to allow other concessionaires to connect to its pipeline system as long as sufficient capacity exists to provide the service requested and that such connection is economically viable. The interconnection fees will be agreed by the parties.

Rates. The Company is allowed to freely negotiate different rates than those established in the list of rates approved by the CRE. In any case, the rates for interruptible services must be lower than the rates for firm services. The Company is obliged to publish its rates annually in the Federal Official Gazette and in the official gazettes of the states in which it provides distribution services.

Capacity of the System. The maximum daily use at the peak of the distribution system is estimated by applying the *Stoner Workstation* simulation model, which is the international standard in the industry to analyze various flows in pipeline systems. If the requested capacity exceeds the available capacity, the Company must give priority to maintaining first the residential and commercial services, consulting with each industrial customer regarding the possibility of reducing or interrupting the latter's service.

Credit, Deposits and Guarantees. In order to establish their creditworthiness, customers must comply with at least one of the following requirements: (1) make a cash deposit in favor of the Company equivalent to three times the highest monthly invoice the Company estimates it will invoice considering the type of customer; (2) obtain a joint obligor, a letter of credit or a bond to guarantee payment of the invoices; or (3) comply in a timely manner with the payment of all invoices during 12 consecutive months.

Security Obligations. The Company must provide immediate notice to the CRE and to the appropriate local authorities about any event that may cause a risk to public health and safety. This notice must also of the measures adopted and planned to resolve the problem. The Company is also obliged to use equipment, materials and systems that comply with the specifications provided in the NOM or, in the absence of such provisions, with the specifications adopted internationally in the industry. Likewise, the Company is obliged to train its personnel to prevent and remedy accidents, as well as to provide any needed assistance to government authorities in the case of emergencies or disasters. In addition, the Company must acquire and keep in full force the insurance required by the relevant permits to cover any liabilities that may arise.

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

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

The Company shall not incur in liability when the interruption of the distribution service is due to any of the following causes: (1) Act of God or *force majeure*; (2) faults in the customer's facilities or poor operation of the same; (3) performance of works necessary for maintenance, extension, or modification of the distribution system, as long as prior notice of such circumstance is given to customers; and (4) breach of contract obligations on the part of customers.

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

Dispute Resolution. All disputes that may arise will be resolved through arbitration. The disputes in which the customer is considered a consumer in terms of the Federal Law Consumer Protection Law, any dispute with such consumer will be resolved in accordance with the provisions of such law.

CRE Law

As a holder of LNG and LPG storage permits, natural gas and LPG transportation permits, natural gas distribution permits and the electric power generating permits, the Company's activities are subject to supervision by the CRE.

The CRE Law establishes the powers of the CRE as well as provisions regarding its structure and operation. The CRE is a branch of the SENER that has technical, operating and management autonomy, and is the sole body responsible for granting storage, transportation and distribution permits to participants of the natural gas sector in Mexico, and for supervising, monitoring and inspecting their operations and the full performance of their permits.

Pursuant to the Energy Regulatory Commission Law, the Energy Regulatory Commission has broad powers and authority to regulate natural gas storage, transportation and distribution activities, such as issuing terms and conditions that govern such services provided by the public and private sectors and issuing guidelines to calculate the rates applicable to such services.

NGR

The Mexican natural gas market is also governed by the provisions of the Natural Gas Regulations, which regulates the following aspects regarding natural gas storage, transportation and distribution permits:

- the technical and financial requirements applicable to the operations of permit-holders, such as capitalization requirements and the prohibition of their participation in vertical integration schemes;
- the rules applicable to the term, duration and renewal of permits;
- the rules applicable to the modification, transfer, termination and revocation of permits;
- the requirements to be met for obtaining permits;
- the procedures for granting of permits;
- the specific rules applicable to distribution permits, including those related to the establishment of a geographical areas and amendments thereto, as well as the exclusivity rights provided to the initial permit- holders in a specific geographical area;
- the rules related to the provision of different services, including the specific obligations of permit-holders; and
- the rates and terms of the services.

Pursuant to the RGN, there are two types of natural gas storage and transportation permits: open-access and self-use. Open-access permits are granted to entities (with a storage facility or a transportation system) that will serve very much like a utility:

that is, they are compelled to grant open access on a non-discriminatory basis to any user that requests the service, provided there is available capacity in the system and the parties reach an agreement as provided under the applicable General Terms and Conditions. Open-access permit holders are strictly regulated and supervised by the Energy Regulatory Commission. Self-use permits, on the other hand, are granted exclusively to end- users or a group of end-users organized in a special purpose vehicle or company, whose systems/facilities will not be providing open-access services. The Company's systems are open access pipelines and its LNG terminal is an open access storage facility. A self-use natural gas pipeline serves the Termoeléctrica de Mexicali power generation facility.

Unlike natural gas transportation permits, distribution permits are granted to supply the commodity within a certain geographic area determined by the CRE. As a general rule, the first distribution permit for a certain geographic area must always be awarded through an international tender or bidding process. Distribution permits are commonly granted by the CRE for 30 years, renewable once or more times for subsequent periods of 15 years and are subject to regulated rates and the requirement to provide the service to a minimum number of end-users. Likewise, distribution permits grant their holder a 12-year exclusivity period as of its date of issue. This exclusivity is limited to the distribution of the commodity within the applicable geographic area and does not extend to its marketing. The Company currently operates three natural gas distribution systems in the areas of Mexicali, Chihuahua and La Laguna-Durango, and it has distribution permits for these geographic areas.

Unlike distribution companies, transportation companies are not obliged to provide transportation services in any predetermined geographic area or to connect any given number of users; and their permits do not confer exclusivity rights.

Transportation and distribution companies serving the same geographic area generally not allowed to participate in vertical integration schemes. However, the CRE may grant exceptions to this prohibition when this results in efficiency gains or there are no other parties interested in carrying out the transportation or distribution project. Open-access gas transportation and distribution services are subject to maximum “regulated” rates determined by the methodology established in the Prices and Tariffs Directive issued by the CRE.

The NGR also includes provisions governing natural gas marketing activities. Marketers do not require a permit by the CRE. Authorized natural gas suppliers, transporters and distributors are free to participate in such marketing companies without any specific restriction as a result of their position of permit holders.

NOM and Guidelines Related to Natural Gas

In addition to the laws and regulations mentioned above, the legal framework that regulates natural gas activities also includes (1) the NOM issued by the SENER in connection with technical matters of the business, such as natural gas quality and the technical specifications related to the design, construction, safety, operation and maintenance of the natural gas transportation, storage and distribution systems and facilities, and (2) the guidelines issued by the CRE that regulate economic matters applicable to these activities such as prices and rates and accounting and insurance matters.

Laws Applicable to Liquefied Petroleum Gas Activities

The LPG Regulations regulate first-hand sales, as well as the transportation, storage and distribution of liquefied petroleum gas, which in terms of Article 27 of the Constitution are activities under exclusive federal jurisdiction, but which may be delegated, upon prior permit, to the public and private sectors for the construction, operation and ownership of pipelines, facilities and equipment, subject to the stipulations of the LP Gas Regulations.

The LP Gas Regulations in effect, issued in 2007, introduced the figure of the RGDI. This system (technically an extension of transportation permits issued by the CRE) gives transportation permit holders the chance to have a small-scale LPG terminal strictly for intermediary transport purposes such as filling tanker trucks for further transportation.

However, the figure of the RGDI does not extend to the sale of LP gas to third parties and it cannot be used for storage for own-use purposes either. If a transportation permit holder requires other permits, a favorable opinion will need to be obtained from the COFECE.

Unlike the permits for natural gas and power generation, LPG permits are not completely regulated by the CRE. The SENER and Ministry of Economy, among others, are also regulatory authorities in the LPG industry.

Other Authorities

The COFECE, a decentralized branch of the Ministry of Economy, has a joint jurisdiction over the natural gas and LPG activities concerning the prevention and enforcement against monopolistic practices and economic concentrations. According to the RGN, notice must be given to the COFECE by parties interested in obtaining a natural gas storage, transportation or distribution permit from the CRE.

There are several other permits and/or licenses which may be required by the federal, state or municipal authorities for the development, construction and operation of natural gas and LPG systems. These include environmental permits, zoning permits, construction permits, concessions over and/or rights of way crossing federal areas such as rivers, streams and maritime zones for a dry dock, among others.

Other Applicable Provisions

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

Laws Applicable to Electricity Generation Activities

Up to December 20, 2013, under the Political Constitution, the generation, transfer, distribution and marketing of electricity for public utility purposes were exclusive activities of the Nation, carried out through the CFE. The Electric Power Law was amended in 1992 to allow private participation in the construction and operation of power plants under various modes that are not "strategic" activities, including the generation of electric power by independent producers for its sale to the CFE, small-scale production, the generation of electricity for export or self-supply. However, up to December 20, 2013, the transmission and distribution of electric power remained exclusive activities of the Nation, through the CFE. The Electric Power Law provides for private participation in electricity generation in Mexico pursuant to various permits issued by the CRE, which in the terms of the CRE Law has the authority to regulate the electricity sector. The generation permit for the Termoeléctrica de Mexicali power generation facility, issued in 2001, is effective for a 30-year term from its issuance and allows the generation of electricity for export purposes. See the section *"Risk factors-Risks related to the Company's activities and industry-Some government authorities are empowered to revoke the Company's permits for various reasons, some of which are outside the Company's control."*

Because they are interconnected to the network controlled by the CAISO, the Energía Sierra Juárez wind generation project and the Termoeléctrica de Mexicali are subject to the power reliability standards established by the North American Electric Reliability Corporation and the WECC under Section 215 of the Federal Power Act of the United States.

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

Anticorruption Law

The Federal Anti-Corruption in Public Contracting Law (Anticorruption Law), which came into effect on June 12, 2012, establishes the responsibilities and penalties applicable to Mexican and foreign individuals or corporate entities that participate in federal public procurement contemplated under such law, as well as Mexican individuals or corporate entities for violations incurred in their participation in international trade transactions with public institutions of other countries, or in processes related to the granting of permits or concessions by such institutions. The Company is subject to the Mexican Federal 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 tender process, or that involve contracting with any of these federal government entities.

Under the anti-corruption law, individuals and corporate entities are considered liable in federal procurement or procedures for the granting permits or concessions by agencies or entities of the federal public administration whenever they promise, offer, or deliver money or any other gift directly or indirectly to a public servant or third party in exchange for having such public servant perform or refrain from undertaking an action relating to their functions or to those of another public servant for purposes of obtaining or maintaining a benefit or advantage, regardless of the acceptance or receipt of the money or gift, or of the result

obtained. The anti-corruption law also applies to the use of similar practices in the performance of international commercial transactions with public institutions from other countries.

The Anticorruption Law provides for the investigation of possible violators and includes an administrative procedure to address claims. The Ministry of Public Administration and other organisms are the authorities in charge of investigating and penalizing infringement of the Anticorruption Law.

Individuals are liable to a fine equal up to 50,000 times the minimum general daily wage in effect for Mexico City while the fine for corporate entities is equal to up to 2,000,000 times the minimum general daily wage in effect for Mexico City and can be increased up to 50% if the benefit obtained exceeds the maximum fine, among other reasons. Additionally, individuals may be punished with disqualification from participating in federal procurement for a period of up to eight years while corporate entities can be punished with disqualification from participating in federal procurement and the awarding of permits or concessions for a period of up to ten years. The Federal Anticorruption Law establishes a procedure for reducing fines by which these can be reduced between 50% and 70% if the presumed violator confesses its responsibility before the initiation of the administrative procedure and 50% of the penalty if the conduct is confessed once said procedure is initiated.

Data Protection Law

The Company, and in particular the Ecogas distribution system is subject to the provisions of the Data Protection Law that came into effect on July 6, 2010. The Data Protection Law is applicable to natural persons or private legal entities that process personal data.

Pursuant to the Data Protection Law, processing and transfer of personal data requires the prior consent of the data owner. Consent can be obtained by means of a "privacy notice", which informs the data owner of the purpose for the use of the personal data, any intended transfers and the data owner's rights of access, rectification, and cancellation or opposition to the processing of the personal data. A data owner grants consent for the use of the personal data if it does not manifest its opposition the privacy notice. The privacy notice may be delivered to the data owner through printed, digital, visual, electronic or audible means or in any other format. According to the Data Protection Law, data owners are entitled to revoke their consent for the treatment of said data at any time. The Data Protection Law provides certain requirements and exceptions for the transfer of personal data to third parties.

Ports Law

As holders of a concession for the use and occupation of a federal maritime area for the construction and operation of a maritime terminal for its LNG Terminal, including a dry dock and ancillary maritime infrastructure, the Company is subject to the Mexican Ports Law and its regulations and to the jurisdiction of the federal government through the Ministry of Communications and Transportation.

Pursuant to the Ports Law, the construction and operation of maritime infrastructure as well as dredging activities require specific authorizations from the Ministry of Communications and Transportation. Likewise, the use of federal maritime areas requires a concession that can only be granted to Mexican corporations.

Concessions may be granted for up to 50 years, subject to the characteristics and investment of the project in question, and are subject to renewal for a period of time equivalent to the one originally granted. A concession may be terminated by the SCT for certain reasons set forth in the Ports Law, including (1) termination of the purpose for which the concession was granted, (2) bankruptcy or liquidation of the permit holder, or (3) redemption. In addition, our concession may be revoked in certain circumstances, including if we do not comply with our obligations under the permits, or if we experience partial or total interruption in the operation of the system or facility without justified cause.

Constitutional Amendments on Class Actions

On July 29, 2010, Article 17 of the Mexican Constitution was amended in order to allow class actions to be brought in federal courts in connection with civil actions on matters related, among others, to consumer protection and environmental law. Consequently, on August 30, 2011, the Federal Code of Civil Procedure and the General Ecological Balance and Environmental Protection Law were amended to incorporate class actions. Such amendments became effective on March 1, 2012, though as of the date of this annual report, to the Company's knowledge, no class action has been brought before the federal courts in connection with these or with any other matters.

Federal Labor Law

On November 30, 2012, the Federal Labor Law was amended to incorporate and regulate new figures such as: (i) labor principles recognized by the International Labor Organization regarding non-discrimination towards women and the disabled in the labor environment, (ii) the regulation of three new employment modes: "contract on trial," the "initial training contract" and the "seasonal discontinuous contract", and (iii) a new subcontracting regime providing a legal framework for contracting of employees through third parties. While these amendments are not expected to have a significant impact on the Company, the potential effects on the Company of the application of these amendments cannot be accurately foreseen.

Federal Law for the Prevention and Identification of Transactions with Funds of Illegal Origin

The Federal Law for the Prevention and Identification of Transactions with Funds of Illegal Origin *(Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita)* was passed on October 17, 2012 t protect the financial system and the national economy. It established measures and procedures to prevent and detect acts or operations involving resources of illegal origin. The Company must file monthly reports on the activities considered vulnerable in the terms of this law.

Permits

Natural Gas Permits

Storage Permit

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

This permit may not be sold independently to the storage system. Any modification of the permit requires prior approval by the CRE. The permit is subject to termination in the event that the Company (1) interrupts the storage service without justified cause or without the authorization of the CRE, (2) engages in unduly discriminatory practices or infringes the rates authorized by the CRE, (3) it assigns, transfers, encumbers or modifies the permit in violation of its terms, or (4) does not fulfill the obligations set forth in the permit.

In October, 2007, the CRE approved the extension of the terminal's maximum send-out capacity to 2,600 MMcfd (27.0 MMThd) and the incorporation of two additional LNG storage tanks. Pursuant to the LNG Storage General Terms and Conditions (approved by the CRE as amended from time to time by the Company) in the event that the Company may wish to increase the terminal's capacity it must do so through an open tender process. Based on the current market conditions, the Company does not anticipate any near-term expansion of the terminal's capacity.

Power Generation Permit

The Company generates electrical power at its LNG terminal under a self-use power generation permit granted by the 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. The permit requires that operation and maintenance of the power generation facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable legal regulations.

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

Transportation Permits

Each of the company's transportation systems operates under an individual transportation permit granted by the Energy Regulatory Commission. These permits each have a term of 30 years and their expiration dates range from 2028 to 2035.

These permits provide that the Company allocate its pipeline capacity on a non-discriminatory basis in accordance with its transportation capacity. In addition, these permits require that operation and maintenance of the transportation system be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable regulations. Assignment or transfer of these permits requires the prior approval of the CRE. These permits cannot be assigned independently from the respective transportation systems.

A transportation system permit can be revoked in the event that the Company (1) interrupts the transportation service without cause or the authorization of the CRE, (2) engages in unduly discriminatory practices or charges rates in excess of those authorized by the CRE, or (3) assigns, transfers, conveys or modifies the permit in violation of the provisions established in the title of the permit.

Distribution Permits

The Ecogas distribution system holds separate distribution permits for each one of its three distribution zones. These permits each have a term of 30 years and their expiration dates range from 2027 to 2029. These permits require the Company to render

the natural gas distribution services efficiently and in accordance with principles of uniformity, homogeneity, regularity, safety and continuity. These permits also require the Company to provide open and non-discriminatory access to its distribution capacity and require that operation and maintenance of the transportation system be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable legal provisions. These permits cannot be transferred separately from the respective distribution systems.

Electricity Generation Permits

Termoeléctrica de Mexicali

Our Termoeléctrica de Mexicali power plant holds two power permits issued by the Mexican Energy Regulatory Commission. The first authorizes the Company to produce and export up to 679.7 MW of electricity to the United States until August 2031. In June 2001 the Company obtained a permit to import 12.0 MW of electricity from the United States to power the generation station, with an indefinite term. The export permit requires that operation and maintenance of the power generation facility be performed by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable provisions.

The transfer or modification of either of these permits requires previous approval from the Mexican Energy Regulatory Commission. Additionally, our export permit may only be transferred if the power generation facility it covered is also transferred.

Both permits are subject to revocation in the event that the Company (1) has been sanctioned repeatedly by the CRE for selling, re-selling, trading or transmitting the capacity or electricity generated by any other means; (2) transmits the rights granted under the permit or generates electricity in conditions other than those set forth in the permit without the authorization of the CRE; or (3) commits severe, repeated or continuous breaches of any of the provisions of the Electrical Energy Law, its Regulations, the conditions of the permit, the NOM or the applicable technical and operative specifications.

Energía Sierra Juárez

The Company is developing the Energía Sierra Juárez wind generation project in phases over several years. The first stage is currently under construction in accordance with an environmental impact authorization that cover all the stages of the project and with a change of land use authorization for the first stage to change forest lands to industrial use. Both authorizations were granted by the SEMARNAT. The Company also obtained an environmental impact authorization specifically for the opening and conditioning of access roads to the project.

The environmental impact authorization, granted by the SEMARNAT, permits the development of a wind generation project that will generate up to 1,200 MW on a site of approximately 5,200-acres (2,104-hectares) of forest and forest-like vegetation. The authorization was issued with a 20-year term for the site preparation and project construction and a 60-year term for the operational stage.

The wind generation project will operate under two CRE permits in June 2012: (1) an electricity import permit which will allow the import of electricity to Mexico from the United States exclusively to meet the needs of the wind generation project, with an indefinite term; and (2) an electricity export permit which will enable us to produce electricity under an independent power producer scheme with an installed capacity of 155 MW for a 30-year term, subject to renewals under certain conditions. The permits were granted conditionally by the CRE subject to obtaining the favorable opinion of the CFE which was obtained in 2013. Therefore, the CRE deemed said condition as having been met and the subsequent actions necessary are required to maintain the permit valid. Under these permits, electricity will be imported and exported through a transmission line interconnected with the SDG&E’s East County substation. The transfer of these permits requires the prior approval of the CRE. Further phases of the project will also require CRE permits for the generation and sale of electricity.

The permits are subject to renewal in the event that the Company (1) has been sanctioned repeatedly for selling, re-selling or trading the capacity or electricity; (2) transmits the rights granted under the permit or generates electricity in conditions other than those set forth in the permit without the authorization of the CRE; (3) repeatedly or continuously breaches payments of duties for the supervision services of the permit, or (4) commits severe, of any of the provisions of the Electrical Energy Law, its Regulations, the conditions of the permit, the NOM or the applicable technical and operative specifications.

vi. Human Resources

Employees.

As of December 31, 2013, the Company had a total of 496 employees, 6.5% of which were unionized and 93.5% were key employees. The following table shows the number of full-time employees by area of activity and business segment.

	Employees.
By Activity	
Management	73
Operations	393
Construction and Engineering	30
By Reporting Segment	
Gas Segment(1)	374
Power Segment	46
Corporate	76
Total employees	496

(1) Excludes 154 employees employed by our joint venture with Pemex Gas.

Unions and Collective Labor Relations

The Company's collective labor contracts with various trade unions are renegotiated in independently for each plant. Salaries are reviewed annually and the other terms of such collective labor contracts are reviewed every two years. The Company has not experienced any significant collective labor disputes. The Company believes that its labor relationships with the different unions are satisfactory.

vii. Environmental Performance

Environmental Matters

Environmental Regulations

The Company's operations are subject to Federal, State and Local environmental authorities, laws, regulations, NOM and other technical standards. The distribution of jurisdiction over environmental matters among governmental authorities at the Federal, State and Municipal levels is based on a "residual formula" provided in the Mexican Political Constitution which establishes that those matters that are not expressly reserved to the federal government fall under the jurisdiction of the state governments. Whereas the electricity and natural gas projects are subject to the jurisdiction of the Federal Government, certain environmental matters, such as the management of non-hazardous residues, the opening of new access routes and changes of forest land use fall under the jurisdiction of the State and Municipal authorities.

The main Federal laws applicable to the environmental aspects of the Company's activities are the General Law on Ecological Equilibrium and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*); Mexico's General Law for the Prevention and Comprehensive Management of Wastes (*Ley General para la Prevención y Gestión Integral de los Residuos*); Mexico's National Waters Law (*Ley de Aguas Nacionales*); Mexico's General Law for Sustainable Forestry Development (Ley General de Desarrollo Forestal Sustentable); and the General National Assets Law (*Ley General de Bienes Nacionales*). The Company's activities are also subject to different laws, rules and regulations have been promulgated concerning environmental impact and risk matters, noise emissions, emissions into the atmosphere, water extraction and wastewater discharges, waste management, etc. The Company's activities may also subject to other laws, regulations and technical requirements relating to the protection of the environment such as Mexico's General Health Law (*Ley General de Salud*) and Mexico's Federal Occupational, Health, Safety and Environment Regulations (*Reglamento Federal de Seguridad, Higiene y Medio Ambiente en el Trabajo*).

Non-compliance with the applicable environmental laws, regulations and NOM may result in the imposition of administrative fines or sanctions; revocations of authorizations, concessions, licenses, permits or registration; administrative arrests; seizure of contaminating equipment; and in certain cases, the temporary or permanent closure of facilities and even imprisonment, when environmental breaches are classified as criminal offenses.

The Company's projects operate under licenses, permits, authorizations, concessions and registrations issued under these environmental laws. The Company considers that it has all the significant permits, licenses, registrations, concessions and/ or authorizations required for the operation of its facilities and projects, and that it is in substantial compliance with applicable

environmental laws and the respective permits. There are currently no material legal or administrative proceedings pending against us with respect to any environmental matters, except for the matters described in "Procedures related to LNG Terminal Permits and Authorizations Business" and "Legal, Administrative and Arbitration Proceedings—Energía Sierra Juárez". Currently the company doesn't have any legal or administrative procedures related to environmental matters.

The Company's follows internal policies and procedures to ensure compliance with applicable laws, regulations and our permits. From time to time, the Company's updates its permits, authorizations, licenses, concessions and registrations and makes periodic assessments of 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 takes the necessary actions to maintain the effectiveness thereof.

Regulatory Authorities

The SEMARNAT is the main authority responsible for formulating national environmental policy and managing the environment. The SEMARNAT, which is authorized, among other things, to grant environmental impact authorizations and federal licenses for the emission of pollutants into the air, and to issue NOM in environmental matters.

The SEMARNAT has five decentralized agencies (that are economically dependent on the SEMARNAT and act on behalf of same) and two decentralized administrative bodies (with their own legal capacity and equity) that are responsible for the implementation of certain aspects of environmental legislation.

The PROFEPA is the SEMARNAT executive body responsible for investigating and inspecting facilities (including through the voluntary environmental audit program described below), imposing sanctions, as well as ruling on administrative appeals filed by persons who have been sanctioned for committing breaches of the law.

The National Water Commission (Comisión Nacional del Agua) is in charge of the management of national surface and ground waters, the prevention of pollution of water, as well as the use and protection of certain national assets related to rivers, dams and other aquifers. The National Water Commission grants concessions for the use and exploitation of national waters and permits for wastewater discharges into Federal receptor bodies. The National Water Commission has its own executive bodies, which are independent from the PROFEPA.

Environmental Certifications, Policies and Programs

Clean Industry/Environmental Quality Certificates

Several of the companies of the Company's gas segment, such as the Termoeléctrica de Mexicali plant participate in voluntary environmental audit programs sponsored by the Environmental Protection Agency, and many of these companies currently hold renewed clean industry/environmental quality certificates. The Company expects that its other businesses will participate in these programs in the near future.

As part of these voluntary environmental audit programs, the companies are required to conduct environmental audits of their own operations through an authorized third-party environmental auditor. Based on the audit findings, the auditor prepares and proposes to the company a corrective and/or improvement action plan and advises the PROFEPA on the results of the audit and the appropriateness of the resulting action plan. Subject to its review and approval of the audit findings and recommendations, the PROFEPA enters into a conciliation agreement with the audited company for the implementation of the action plan.

A clean industry or environmental quality certificate, as applicable, is issued on the completion of this voluntary environmental audit program, to confirm that the company or business has complied with the action plan and is uprating in compliance with the applicable federal environmental laws and regulations, and in some cases with international standards and prudent engineering and operational practices of the respective industry. The clean industry certificate is valid for a two-year period and can be continuously renewed for similar periods as long as the company continues to confirm to have maintained or improved the conditions of environmental compliance prevailing at the date when the certificate was first awarded.

Corporate Environmental Policies

The Company's activities adhere to Sempra Energy's Corporate Environmental Policies, which were prepared for due implementation globally by the companies belonging to the Sempra Energy group. The Company's employees and contractors are informed of these policies, which are applied in all new projects and in the operation and maintenance of the Company's facilities and processes. The Company expects to continue following these or similar policies in the future. The commitments stated in said policies include:

- complying with all environmental requirements stipulated in all the applicable laws, regulations and permits;
- joining the efforts of clients, governmental officers and other community leaders to take care of the environment in a sensitive and responsible manner;
- promoting the adoption of public policies to protect the environment, use sensitive sciences, cost-effective technology, rational thinking and common sense;

- encouraging the development and use of efficient, clean and cost-effective technologies, by helping our clients to meet their energy needs in an environmentally-responsible manner;
- decreasing our environmental impact through activities such as recycling and minimization of waste;
- incorporating the aspects related to the administration and compliance with the applicable environmental provisions into the strategic planning and operational decision-making processes;
- encouraging the innovation and improvement of cost-effective compliance methods, and the use of practical means to evaluate our performance;
- implementing appropriate environmental training and education programs for employees and stockholders;
- reviewing existing operation and management results and practices to allow continuous improvement; and
- conducting activities consistently in accordance with environmental policies.

Very often, the Company's internal standards are stricter than those established in the legislation applicable in Mexico.

Environmental Programs

The Company has implemented several ongoing environmental programs, such as the re-vegetation and protection of marine species programs sponsored by its LNG terminal. These programs involve the rescue and relocation of certain protected species such as the Coast barrel cactus (*ferocactus viridescens)*, as well as reforestation and the compensation and conservation of flora. The marine species protection program is aimed both at monitoring marine mammals and relocating certain species such as sea urchins and other benthonic species in collaboration with local universities and fishing communities.

The Company considers that in view of its clean industry certificates, its corporate environmental policies and ongoing legislation compliance monitoring programs, the environmental matters with respect to its current projects will not generate any material costs and liabilities. However, the Company cannot guarantee that future costs and liabilities associated with its projects will not have any material adverse effect on its activities, operating results, cash flows or financial situation.

viii. Market Information

Industry Profile

The 2013 Energy Reform

The text of the Energy Reform was published in the Federal Official Gazette on December 20, 2013. Said text modified Constitutional Articles 25, 27 and 28 and introduces 21 temporary articles that, together, represent a structural change in the Mexican energy sector. The new constitutional text allows private participation in activities such as: exploration and production of hydrocarbons, the processing and refining of crude oil and gas and petrochemical production, the transportation, storage and distribution of crude oil and petroleum and in the generation, transmission and distribution of electricity.

In addition to the opening of new sectors, the Constitutional Reform reorganizes the State institutions that participate in the industry and creates other new participants. All the details of the new institutional arrangement will be defined on the publication of the new secondary legislation, but for the time being, it is worth emphasizing two new institutions that will be of particular relevance to the sectors in which the Company currently operates: the National Gas Control Center (CENGAS, Spanish acronym), which will be an independent operator of the country's natural gas transportation and storage network and the National Electricity Control Center (CENACE, Spanish acronym), which will be an independent operator of the country's electricity transmission network.

In accordance with the temporary provisions of the Energy Reform, the Federal Congress is required to make adjustments and issue the new secondary legislation before the end of April 2014. The Company expects that a new era in the Mexican energy sector will begin with the publication of the new secondary legislation, which will bring profound changes in the industry in the medium term. This report, on covering the year 2013, the information on the electricity and natural gas sectors presented in this section is based on the legal framework that was in force from the 1990s and until 2013.

The Natural Gas and Electricity Sectors

Both the natural gas and electricity sectors are regulated and are subject to a high level of government participation. In the electricity sector, the government operates through the CFE, which, before the 2013 Energy Reform, had the exclusive right to transport and distribute electricity throughout Mexico. In the natural gas sector, the Company operates through PEMEX and its subsidiaries, including to Pemex Gas. However, legislative changes in Mexico in the 1990s in both the natural gas and electricity sectors created significant private investment opportunities.

The Natural Gas Sector

Mexico is one of the few countries that despite liberalizing natural gas storage, transportation and distribution, until 2013, continue to restrict competition in natural gas production. *Pemex Exploración y Producción* is currently the only entity that produces natural gas. The liberalization of the natural gas industry started in 1995, when changes to Mexican law allowed private participation in the midstream (transportation and storage) and downstream (distribution) natural gas sectors. Prior to that year, PEMEX was the only entity authorized to build and operate gas pipelines. Natural gas distribution was also highly restricted at the time. As part of these 1995 reforms, PEMEX was required to provide the private sector with open access to its natural gas transportation system, thus ending its monopoly in the gas market. In the years since the 1995 reforms, the natural gas transportation and distribution sectors received significant inflows of private investment. However, currently the NGS, operated by Pemex Gas, still accounts for most of the country's gas pipeline network.

As of December 31, 2012, the private sector, including IEnova, operated under the following permits granted by the Energy Regulation Commission:

- 20 open-access pipeline transportation permits corresponding to 17 systems in operation
- 20 distribution permits through 7 different business groups
- 3 storage permits corresponding to 3 LNG import terminals

The demand for natural gas in Mexico has increased significantly over the last six years. The largest absolute increase has been in the consumption of natural gas by the CFE for the generation of electricity. In relative terms, the most dynamic consumption of natural gas has been the industrial sector.

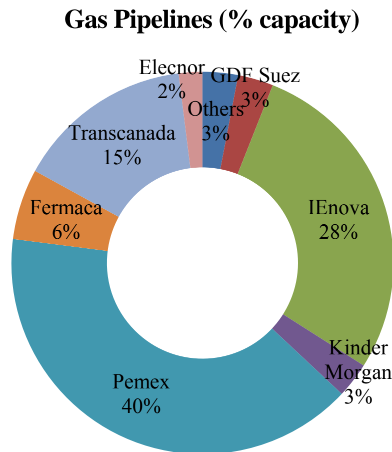
Open-Access Transportation Projects

At December 2012, there were 17 open access transportation permits in operation. According to the SENER, these pipelines have a total length of over 12,000 km, and transport an average capacity of 11,000 MMcfd (excluding projects under construction).

The natural gas transportation infrastructure in operation is concentrated among a few key companies. The main four companies comprise nearly 90% of the market.

The graph below shows the country's transportation capacity distributed by company.

Gas Pipelines (% capacity)



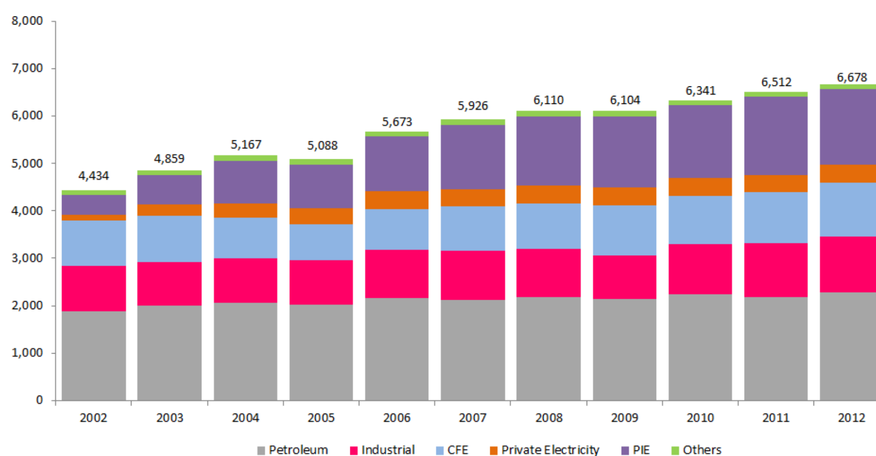
Sources: Energy Ministry (*Outlook of the natural gas and LPG market. 2013-2027*); Energy Regulation Commission files and information taken from the tender held by the CFE.

Currently, these projects transport natural gas for the CFE, IEPs, industrial customers, distribution zones and PEMEX. As already mentioned, 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 graph illustrates the growth in natural gas demand since 2002.

Mexico Natural Gas Demand 2002 – 2012

(MMcfd)[1]

Other IEPs Private Electricity CFE Industrial Petroleum



[1] mmcfd = millions of cubic feet daily
Source: Energy Ministry, Natural Gas and LPG Outlook. 2013 - 2027

Higher consumption needs require a parallel development of transport infrastructure. The following table shows some details of the new natural gas transportation projects.

Natural Gas Transportation Projects

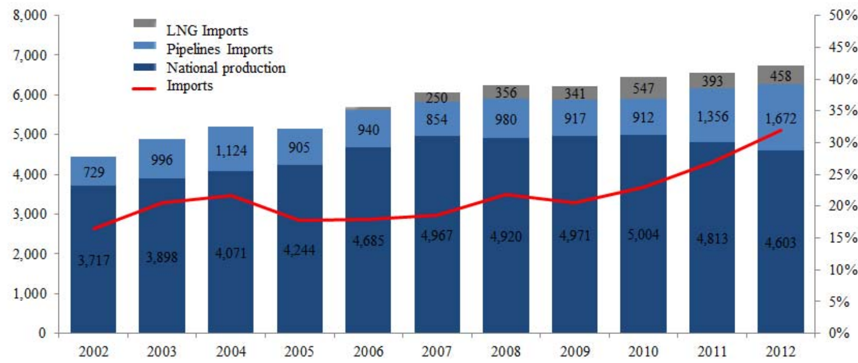
Project	Commercial Operation Date	Capacity (MMcfd)	Estimated Investment (US$ millions)	Length (km)
Existing infrastructure		10,882	$ 16,275	11,917
New projects				
Chihuahua	2013	850	500	385
Tamazunchale	2014	630	600	200
Morelos	2013	320	210	170
Yucatán	2013	300	125	75
Noroeste	2014[1]	2,041	2,450	2,324
Zacatecas	2014	20-40	125	165
Los Ramones	2014[2]	1,400–2,100	3,000	1,221
Total		5,561	$ 7,010	4,257
Final network		**16,443**	**$ 23,285**	**16,553**

[1] Sásabe-Puerto Libertad section, October 2014; El Encino-Topolobampo section, July 2016; Puerto Libertad-Guaymas section, October 2015; Guaymas-El Oro section, August 2016; and the El Oro-Mazatlán section, December 2016.
[2] Frontera-Ramones: December 2014; Ramones-Apaseo El Alto; 2015; Ramones-Guanajuato; 2017
Source: PEMEX

The growth of the national gas pipelines network as a result of the projects listed above without a doubt will improve the levels of scope, redundancy and flexibility of the network. However, the country will continue to have an infrastructure deficit, so that there will be a significant amount of new investment opportunities in natural gas transportation.

LNG Storage and Regasification Plants

The significant growth in the demand for natural gas by the CFE, the IEP and the growth in demand for industrial consumption, have contributed to an overall increase of 2.247 MMcfd in demand 2002 and 2012. The level of demand has exceeded the level of domestic production for some years now, thereby leading to the increase in imports. The following graph illustrates the growth in natural gas product and imports since 2002.



Source: SENER (*Natural Gas and LPG Outlook.* 2013 - 2027).

In addition to imports from cross-border pipelines, imports of LNG have helped to meet the country's increasing natural gas demand. Three LNG import terminals have been granted the required permits since September 2003, when the CRE has issued new technical regulations pertaining to LNG storage and regasification plants.

LNG Import Terminals

Plant	Location	Status	Owners	Commencement of operations	Rated capacity (MMcfd)
Altamira LNG Terminal	Altamira, Tamaulipas.	Operational	Vopak and Enagas	2006	500
Energía Costa Azul	Ensenada, Baja California	Operational	IEnova	2008	1,000
KMS LNG Terminal	Manzanillo, Colima	Operational	KoGas, Mitsui and Samsung	2012	500

Source: Wood Mackenzie.

Natural Gas Storage

Storage permits have been granted according to the definition in NGR Article 2. Mexico has no storage capacity for natural gas, with the exception of that associated with natural gas import projects. The main reason for this lies in that the market conditions do not offer economic incentives for the contracting of storage services.

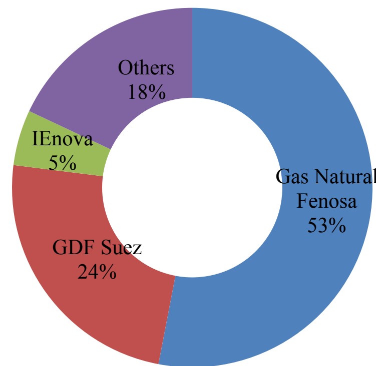
In addition, the determination of the type of storage infrastructure to be built had been a technical, economic and legal challenge. For example, the use of depleted oil fields had been legally questionable due to the existence of residual hydrocarbons that could be mixed with natural gas stored, thus leading to problems in regard to the legality of the "extraction." Although the fields with deposits of resources other than hydrocarbons could be a simple solution, the lack of a true market for natural gas also limits the development of this type of project.

Currently, storage permits can also be applied for and obtained, although no such permits have been granted to date.

Natural Gas Distribution

In July 2013, there were 20 natural gas distribution permits with networks in operation. At the end of 2012, these permits operated networks with a total length of 47,688 km. The following graph shows the composition of the natural gas distribution market in terms of the lengths of the distribution systems of the respective companies. The two main companies control 80% of the total natural gas distribution market.

Natural Gas Distribution



Sources: SENER (Natural Gas and Gas LPG Outlook, 2013-2027), internal information of the Company and web pages of the other companies.

Since the private participation in the distribution segment of natural gas was allowed, the length of the systems increased at an average annual rate of 11%, equivalent to an absolute increase of 39,759 km between 1995 and 2012. At the end of 2012, the distribution system had a network of 47,688 km and 2.16 million customers.

Natural Gas Marketing

The CRE is working on the implementation of the Permanent First-Hand Natural Gas Sales, or FHS, regime. The Permanent Regime would allow all the participants in the natural gas industry to purchase gas directly from the PEMEX processing plant or at some import point. This would put an end to the long transitional regime under which most of the members of the NGS (except IEP) are obliged to acquire gas and the related transportation services from Pemex Gas, in combination with other services (including gas, transportation, processing charges and profit margins on imports). The implementation of the Permanent FHS Regime will allow natural gas marketers to play a more important role in the industry. More than this, it will enable a more developed market in terms of transportation capacity.

Although the application of the Permanent Regime was delayed for many years, one of the consequences of the 2013 Energy Reform and of the creation of the National Gas Control Center is the implementation of the Permanent Regime. Without its implementation, the intermediate segment of the natural gas value chain will not achieve any conditions of competition.

The Power Generation Sector

Before the 2013 Energy Reform, the private sector was only allowed to participate in the construction and operation of power plants through independent generation, generation for self-consumption, co-generation and small-scale generation. The transmission and distribution of electricity were exclusively reserved to the Mexican government, through the CFE.

After successfully awarding several build-lease-transfer projects in the mid-1990s, new legislation in 1997 allowed the CFE to invite Independent Production Plants to bid for projects, such as the Merida III plant. From the nationalization of the electricity industry in 1960 until the legislative reforms of 1992, the CFE was the only entity authorized to generate electricity in Mexico.

The 1992 reforms allowed companies to participate as IEP in the construction, financing, operation and maintenance of electricity generation plants, provided that they meet certain quality and technical standards. The electricity generated by IEPs must be sold exclusively to the CFE under long-term generation agreements at fixed prices.

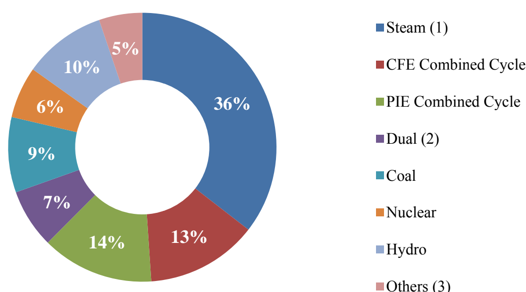
The opening of the market to the IEPs has brought more efficient technology to the country. For example. this initiative greatly increased the amount of natural-gas-fired combined-cycle technology in Mexico. Combined-cycle technology generates electricity and steam, which is significantly more efficient than simple-cycle turbines. It also contributes greater installed capacity factors. The increased focus on combined-cycle technology has had a considerable impact on a market that had depended to a large degree on antiquated power plants, many of which used fuel oil as a production supply as opposed to natural gas.

In general terms, the IEPs build and operate their own plants under 25-year contracts. Most IEPs receive their natural gas from the CFE under long- term contracts that match their operating terms. All winning bidders are required to obtain all the permits necessary for the projects, including operating permits from the CRE.

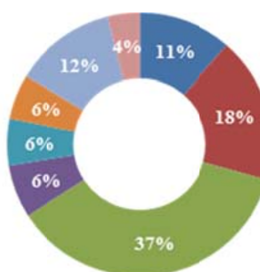
Currently, the private sector operates over 67% of the power generated in Mexico using combined-cycle technology through IEP contracts. As a whole, these projects generate 36.5% of the electricity for Public Service (electricity administered by the CFE and consumed in the country) generated in Mexico. The increase in electricity generation has spurred investment in transmission lines and substations. Transmission line length and substation capacity grew 29.1% and 45.2%, respectively, between December 2004 and December 2013.

The shift towards combined-cycle technology has reduced the use of fuel oil in Mexico for electricity generation purposes. Between 2002 and 2012, the average daily consumption of fuel used to generate electricity for Public Service decreased by 41%, which is equivalent to an average annual rate of increase of -5.1%. The following graphs illustrate the composition of the CFE's power generation by production source in January 2003 and December 2013.

Power generation by source, January 2003



Power generation by source, December 2013



(1) Steam technology uses fuel oil, natural gas and diesel.
(2) Dual technology uses fuel and coal or a combination of fuel, oil and natural gas.
(3) Includes geo-thermal, wind-powered (operated by both the CFE and IEPs), and photovoltaic projects.
Source: Energy Information System.

The graphs above show that fuel oil usage has decreased considerably and natural gas has increased substantially as the primary source of fuel for power generation.

The percentage of the total electricity for Public Service supplied in Mexico by the IEPs increased from 14% in January 2003 to 37% in December 2013.

In addition to the participation of the IEPs, through December 2013, the private sector was only permitted to participate in cogeneration, self-supply, imports, exports and small production of electricity (i.e., the production of less than 30 MW for sale to the CFE or for export). These activities have resulted in investments totaling US$17 billion since 1995, and additional investments of up to US$20 billion are expected to be generated through 2025. All generation projects must hold an CRE permit. The following table shows the total capacity, generation and investment to December 2013 represented by the projects authorized since 1992.

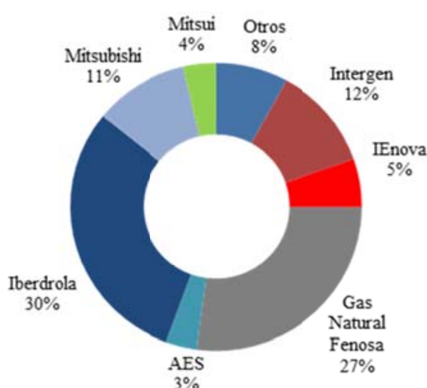
Electricity permits granted by the Energy Regulation Commission: authorized capacity, generation in investment

Permit	Capacity (MW)	Generation (gWh)	Investment (US$ millions)
IEPs	14,251	102,555	$ 15,052
Self-supply	12,574	64,913	18,178
Co-generation	3,667	22,038	3,752
Exports	1,817	12,767	2,322
Imports	273	1,513	18
Small-scale production	1,351	4,062	3,867
Total	**33,934**	**206,335**	**$ 43,189**

Source: CRE.

The following graph shows the current composition of the electricity generation market by the private sector (export and IEP permits). The two main companies control 60% of this market.

Power Generation



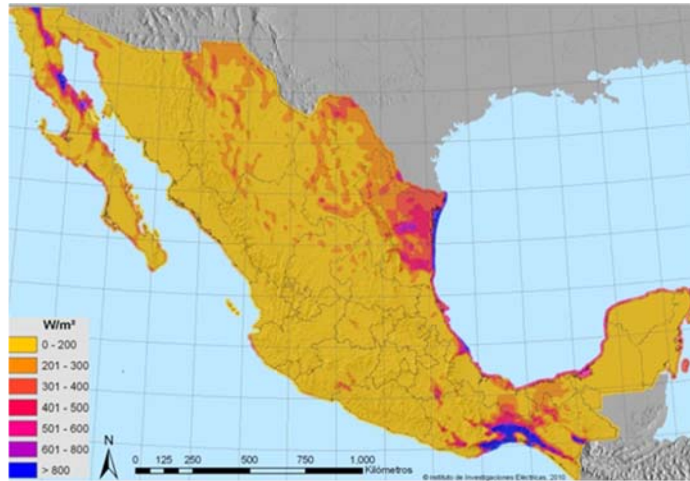
Source: Energy Ministry (*Natural Gas and LPG Outlook. 2013-2027*). Based on the installed capacity in MW, this only includes the electricity generated by the private sector and excludes the CFE.

Renewable Energy Sources

During the past years, Mexico has made an effort to develop and promote non-fossil fuel consumption and move towards a more diversified energy matrix. The energy reform approved by Congress in October 2008 included the Energy Transition Law, which is designed to encourage and regulate the use of renewable energy sources in the country and establishes the legal regime for the development of these sources and clean technologies for electricity generation. In the long term, renewable energy sources can help to balance the portfolio of the country's electricity and reduce its dependence on sources subject to high price volatility. In addition, to the extent that the government manages to implement the incentives and the regime, the foregoing may also represent new opportunities for investment.

Mexico has an outstanding variety of renewable energy resources including wind, geothermal, solar, and hydroelectric. Mexico's wind and solar resources are particularly rich. According to the Electrical Research Institute, Mexico has a potential for 87,600 MW of wind-generated energy. A potential of 11,000 MW is estimated for plant factors greater than 30%, whereas a generation capacity of 5,235 MW is estimated for plant factors greater than 35%. The most promising areas are located in Oaxaca, Northern and Central Mexico, and along the coasts of Yucatan and the Gulf of Mexico. The following map shows the regions in Mexico with the greatest wind power generation potential.

Wind Power Generation Potential

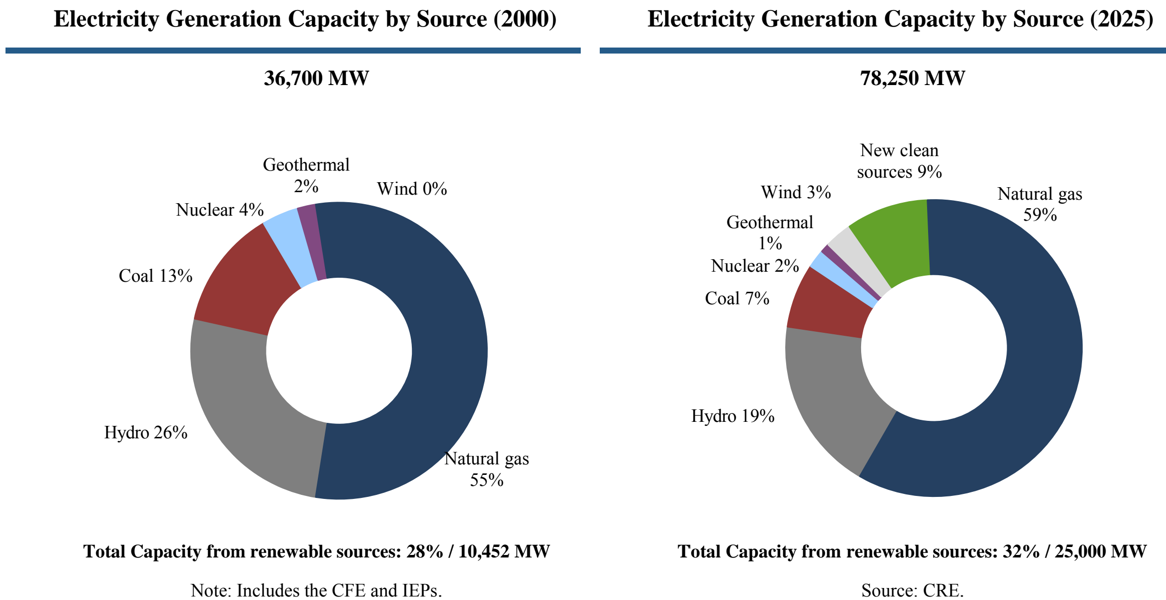


Source: Electrical Research Institute.

Renewable energy resources currently account for over 18% of Mexico's installed generation capacity. In 2012, the gross generation by renewable sources decreased by 10% compared to the previous year, to 47.3 billion Kwh.

The Federal Government has passed a series of reforms aimed at achieving a more balanced and sustainable energy mix. The most important objective established as part of these reforms is contained in the General Climate Change Law, approved by Congress in April 2012. The law establishes the obligation to achieve, by 2024, that 35% of the electricity produced in Mexico be generated from non-fossil fuel sources. This legislation positions Mexico as the second country in the world behind the United Kingdom to enact binding climate change policies. The private companies that are well-positioned to benefit from these regulatory changes are likely to experience significant growth as domestic energy needs in Mexico continue to grow and the country adopts a clean technology regime.

The following graphs show the country's energy generation capacity in 2000, compared with the capacity projected for 2025.



The reform of the energy sector in 1992 allowed the participation of the private sector in the renewable energy market for the first time. However, the use of this type of energy has stagnated in comparison with the use of fossil fuels. This is partly attributable to a lack of a comprehensive structure to overcome numerous obstacles such as complicated land-use permits, insufficient transmission infrastructure and cost advantages that restricted the CFE from purchasing more expensive electricity. The 2013 Energy Reform and the legal separation of the CENACE and the CFE have the potential to assist in the development of renewable energy sources.

Growth of the Domestic Natural Gas and Electricity Sectors

The Company believes that in the medium term, there will be a significant growth in the consumption of electricity and natural gas and therefore in the associated supply infrastructure. The three main reasons for this belief are the expected population growth, the economic growth expected as a result of the investments associated with structural reforms of 2012 - 2013, including the energy reform, and the fact that the current energy infrastructure has a deficit.

The National Population Board projects that the Mexican population will increase by 7.9% (nearly 8.7 million people) from 2012 to 2015. Although the projected growth rate is less than half of that observed from 1995 to 2010 (during which time Mexico experienced a population growth of 23.2%), this projected population growth suggests that the energy demand will continue to increase in the coming years.

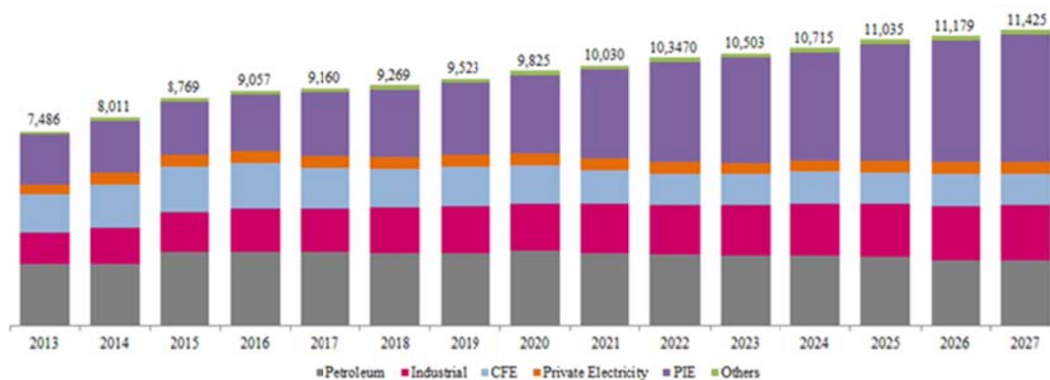
According to the Banco de México's forecast of February 12, 2014, contained in the report for the fourth quarter of 2013, in 2014, the Mexican economy could grow by between 3% and 4%. At the same time, the GDP growth forecasts for the Mexican economy included in the General Economic Policy Criteria 2014, issued by the Ministry of Finance and Public Credit, indicate that real GDP growth will be 3.9% in 2014 and close to 5% in subsequent years. This economic growth is associated mainly to the effect of the structural reforms implemented in 2012 and 2013.

Moreover, the Company considers that the existing energy infrastructure remains insufficient to meet Mexico’s present and future needs, particularly in Mexico’s central region, which is experiencing rapid population growth and will likely require an expansion of both pipelines and electricity generation facilities.

The latest official demand forecasts available are shown below (Natural Gas and LPG Outlook, 2013 – 2027 (PG 2013 – 2027)) and the Electricity Outlook 2013 – 2027 (PE 2013 – 2027)). It is important to point out that Mexico is in a period of great changes associated with the structural reforms and is entering a phase with a greater potential for growth. The demand data presented here does not include the effects on economic growth associated with the structural reforms; therefore, from the Company's point of view, it represents conservative scenarios of the evolution of the demand for gas and electricity.

The forecasts included in the PG 2013 – 2027 and the PE 2013 – 2027 show that the demands for both natural gas and electricity will continue to grow during the next 13 years at annual average rates of 3.6% and 4.6%, respectively. Based on these levels, by 2027, the country will require 11,425 MMcfd of natural gas (equivalent to a growth of 71%) and 468.26 TWh (terawatts) of gross electricity (equivalent to a growth of 97%). The following graphs show the expected demand patterns in both sectors. These demand scenarios are based on an average annual GDP growth of 3.6%. The following graph shows the demand forecast of natural gas as included in the PG 2013 - 2027.

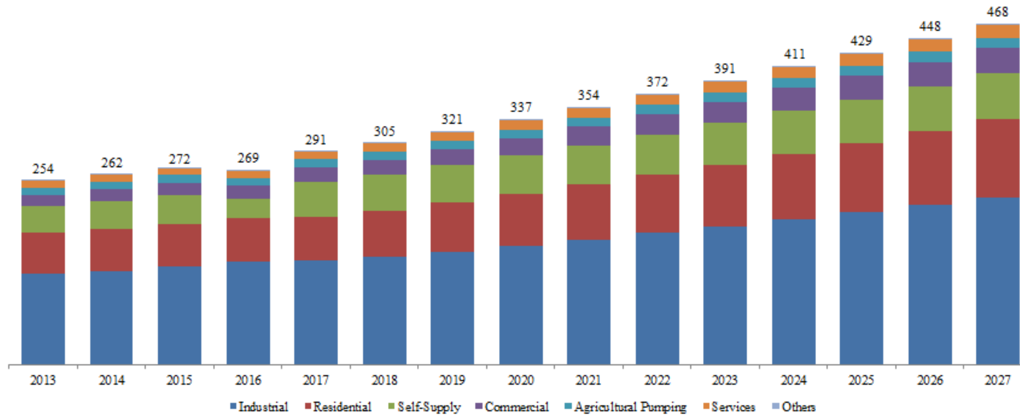
Evolution of demand for natural gas 2013-2027
(MMcfd)



Source: Energy Ministry (*Outlook of the natural gas and LPG market. 2013-2027*).

The following graph shows the evolution of the demand for electricity from 2012 to 2027.

Evolution of domestic demand for electricity 2013-2027
(TWh)



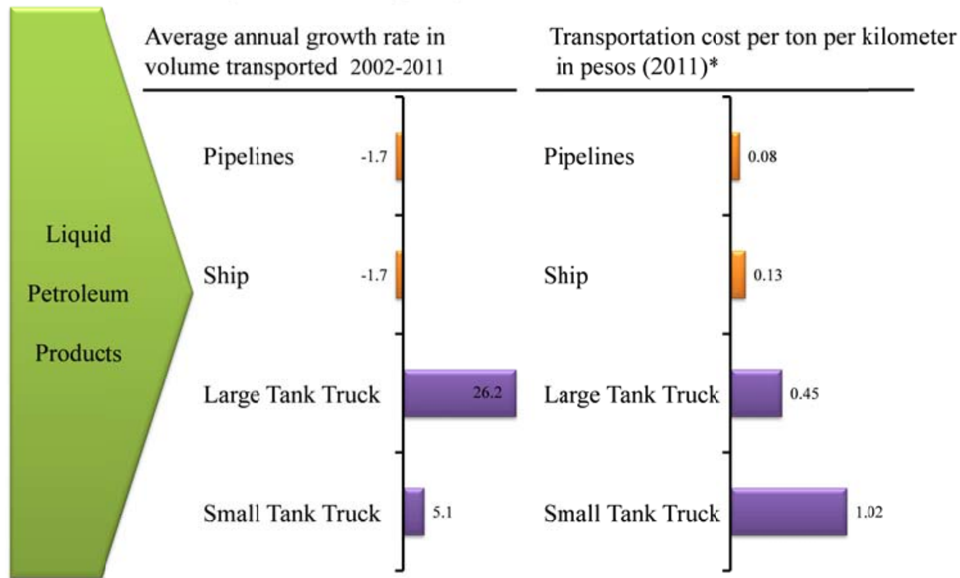
Source: Energy Ministry, *Electricity Sector Outlook 2013 – 2025.*

As shown in the graphs above, the growth in demand, even in a conservative scenario, already represents a great challenge for Mexico. The Company considered that the construction of new infrastructure for the transportation and storage of natural gas and the generation, transmission and distribution of electricity are imperative for the country's economic development in the short and medium term.

Transport of liquid petroleum products

Despite the growing demand for refined petroleum products, Mexico lacks adequate infrastructure for storage, transportation and distribution of liquid petroleum products. Trucks continue to provide a significant percentage of refined petroleum transportation, and there are increasing opportunities to provide more efficient transportation means to reach the growing demand at consumption centers. This scenario represents a potential investment opportunity in liquid petroleum transportation and storage infrastructure. The demand for gasoline and diesel grew at an average annual rate of 3.6% and 4.2%, respectively, over the last ten years. Demand for jet fuel, another important oil for the activities of freight and passengers, had an average annual growth rate of 1.1%, over the last ten years. This scenario represents a potential investment opportunity in liquid petroleum transportation and storage infrastructure.

As the chart below shows, along with the increased demand for oil, which triggers demand for more infrastructure, pipeline transportation is considerable cheaper.



LPG market

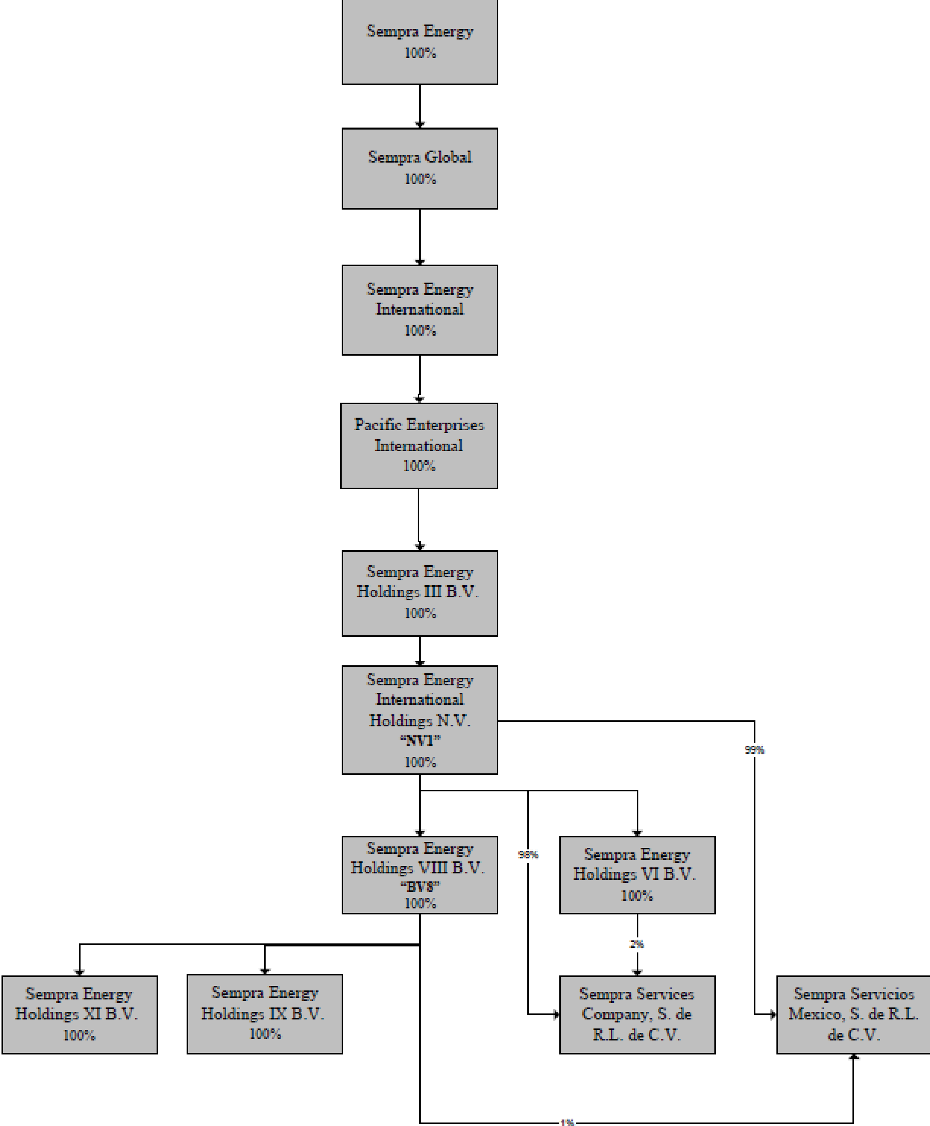
Current Mexican regulations allow private investment in LPG transportation, distribution and storage. The distribution market is dominated by a very small group of participants, with substantial barriers of entry. Current market conditions of storage and transportation segments of this fuel have led, in most cases to near minimum levels of operation of infrastructure.

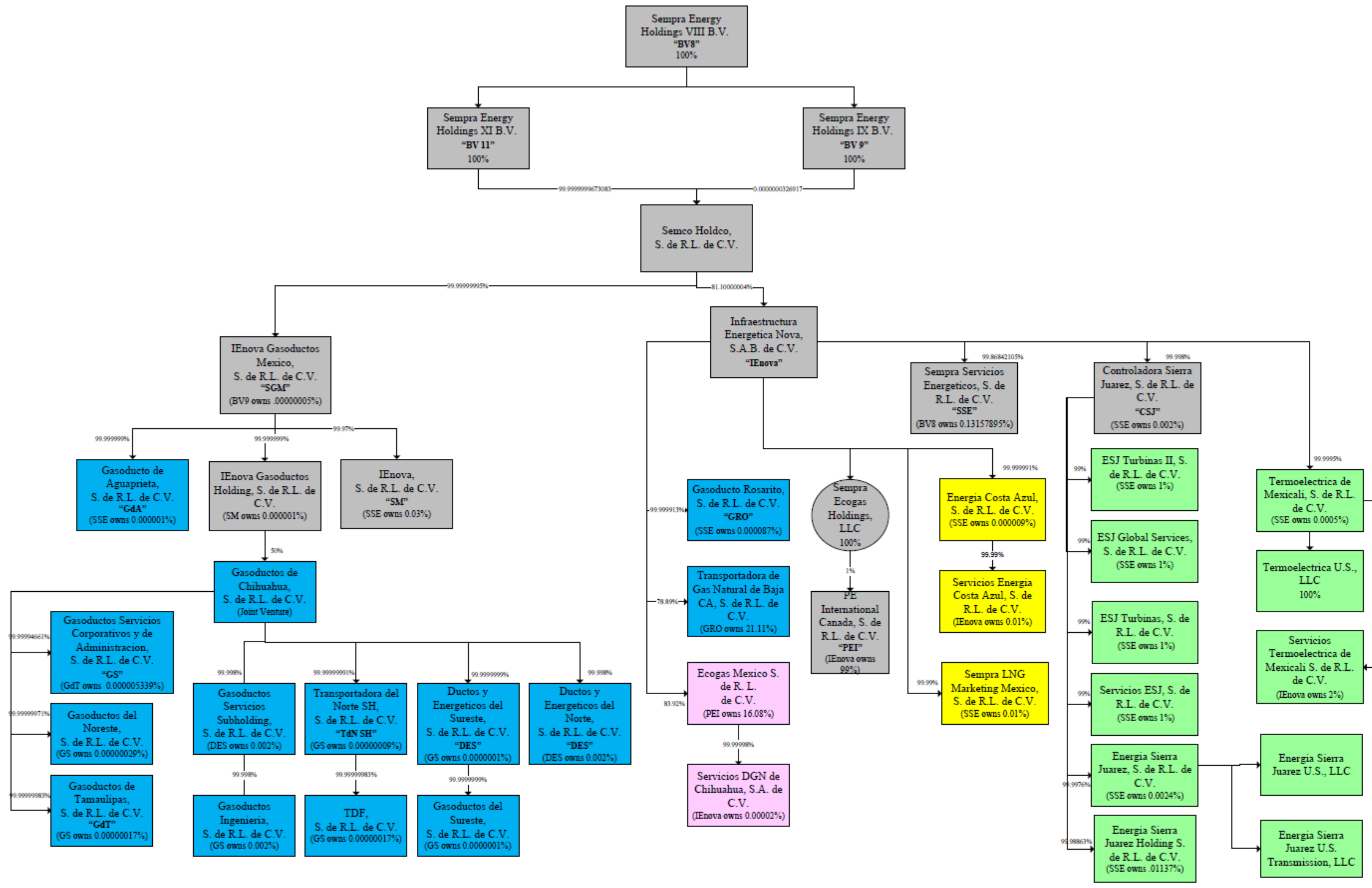
LPG is one of the closest substitute fuels to natural gas, our core business. We expect that the process of replacement of LPG by natural gas continue, deepen and consolidate. In fact, the LPG market projections show that demand, production and imports will remain largely unchanged for the next fifteen years. According to 2014-2018 PEMEX business plan, demand will grow at an average annual rate of 0.1%, production at a rate of 0.7% and imports will fall at a rate of 0.5%.

ix. Corporate Structure

Corporate Structure

The following table shows the Company's corporate structure at April 30, 2014.




Sempra Energy Holdings VIII B.V. "BV8" 100%
Sempra Energy Holdings XI B.V. "BV 11" 100%
Sempra Energy Holdings IX B.V. "BV 9" 100%
99.9999999673083
0.0000000326917
Semco Holdco, S. de R.L. de C.V.
99.99999995%
81.10000004%
IEnova Gasoductos Mexico, S. de R.L. de C.V. "SGM" (BV9 owns .00000005%)
99.999999%
99.999999%
99.97%
Gasoducto de Aguaprieta, S. de R.L. de C.V. "GdA" (SSE owns 0.000001%)
IEnova Gasoductos Holding, S. de R.L. de C.V. (SM owns 0.000001%)
IEnova, S. de R.L. de C.V. "SM" (SSE owns 0.03%)
50%
Gasoductos de Chihuahua, S. de R.L. de C.V. (Joint Venture)
Gasoductos Servicios Corporativos y de Administracion, S. de R.L. de C.V. "GS" (GdT owns 0.000005339%)
Gasoductos del Noreste, S. de R.L. de C.V. (GS owns 0.00000029%)
Gasoductos de Tamaulipas, S. de R.L. de C.V. "GdT" (GS owns 0.00000017%)
99.998%
99.99999991%
99.9999999%
99.998%
Gasoductos Servicios Subholding, S. de R.L. de C.V. (DES owns 0.002%)
Transportadora del Norte SH, S. de R.L. de C.V. "TdN SH" (GS owns 0.00000009%)
Ductos y Energeticos del Sureste, S. de R.L. de C.V. "DES" (GS owns 0.0000001%)
Ductos y Energeticos del Norte, S. de R.L. de C.V. "DES" (DES owns 0.002%)
99.998%
99.99999983%
99.9999999%
Gasoductos Ingenieria, S. de R.L. de C.V. (GS owns 0.002%)
TDF, S. de R.L. de C.V. (GS owns 0.00000017%)
Gasoductos del Sureste, S. de R.L. de C.V. (GS owns 0.0000001%)
Infraestructura Energetica Nova, S.A.B. de C.V. "IEnova"
99.86842105%
99.998%
Sempra Servicios Energeticos, S. de R.L. de C.V. "SSE" (BV8 owns 0.13157895%)
Controladora Sierra Juarez, S. de R.L. de C.V. "CSJ" (SSE owns 0.002%)
99.999913%
Gasoducto Rosarito, S. de R.L. de C.V. "GRO" (SSE owns 0.000087%)
78.89%
Transportadora de Gas Natural de Baja CA, S. de R.L. de C.V. (GRO owns 21.11%)
83.92%
Ecogas Mexico S. de R. L. de C.V. (PEI owns 16.08%)
99.99998%
Servicios DGN de Chihuahua, S.A. de C.V. (IEnova owns 0.00002%)
Sempra Ecogas Holdings, LLC 100%
1%
PE International Canada, S. de R.L. de C.V. "PEI" (IEnova owns 99%)
99.999991%
Energia Costa Azul, S. de R.L. de C.V. (SSE owns 0.000009%)
99.99%
Servicios Energia Costa Azul, S. de R.L. de C.V. (IEnova owns 0.01%)
99.99%
Sempra LNG Marketing Mexico, S. de R.L. de C.V. (SSE owns 0.01%)
99%
ESJ Turbinas II, S. de R.L. de C.V. (SSE owns 1%)
99%
ESJ Global Services, S. de R.L. de C.V. (SSE owns 1%)
99%
ESJ Turbinas, S. de R.L. de C.V. (SSE owns 1%)
99%
Servicios ESJ, S. de R.L. de C.V. (SSE owns 1%)
99.9976%
Energia Sierra Juarez, S. de R.L. de C.V. (SSE owns 0.0024%)
99.98863%
Energia Sierra Juarez Holding S. de R.L. de C.V. (SSE owns .01137%)
Energia Sierra Juarez U.S., LLC
Energia Sierra Juarez U.S. Transmission, LLC
99.9995%
Termoelectrica de Mexicali, S. de R.L. de C.V. (SSE owns 0.0005%)
Termoelectrica U.S., LLC 100%
Servicios Termoelectrica de Mexicali S. de R.L. de C.V. (IEnova owns 2%)

x. Description of Main Assets

Please refer to "Executive Summary - The Company"

xi. Legal, Administrative and Arbitration Proceedings

From time to time, the Company may be involved in litigation and administrative proceedings relating to claims related to our operations and assets. These procedures may include claims filed by suppliers and customers, Federal, State or Local governmental authorities, including the tax authorities, neighbors and environmental and social activists, as well as labor disputes. Other than as described below, the Company believes that there are no material governmental, legal or arbitration proceedings against it that may have a material adverse effect on its business, financial condition, cash flows, prospects, results of operations and/or the market price of its shares.

LNG Terminal

Procedures related LNG Terminal permits and authorizations

Motion for review against the environmental impact authorization for the LNG Terminal, filed by Inmuebles Vista Golf. In May 2003, Inmuebles Vista Golf, S.A. de C.V. (IVG) filed an administrative appeal before the SEMARNAT against the issuance of the environmental authorization granted to the Company in April 2003 for the LNG Terminal. IVG claimed that the SEMARNAT failed both to give proper notices and follow the applicable procedure in issuing the environmental authorization; that the LNG terminal's activities are industrial and therefore do not comply with the Regional Urban, Tourism and Ecological Development Program for the Tijuana Rosarito Ensenada Coastal Corridor ("COCOTREN") and that the conditions and mitigation measures imposed by the environmental authorization were inadequate. In August 2003, the SEMARNAT dismissed the motion and in December 2003, IVG filed an annulment claim before the TFJFA in Mexico City seeking to annul the SEMARNAT's ruling. In April 2005, the TFJFA issued a judgment to annul the respective agreement; therefore, the SEMARNAT processed the motion for review and in July 2006, it ruled on same confirming the validity and legality of the environmental impact authorization. In October 2006, IVG filed a motion for annulment before the TFJFA, in Mexico City against the respective SEMARNAT ruling. In December 2010, the TFJFA confirmed the validity and legality of the ruling through which the SEMARNAT confirmed the validity and legality of the environmental impact authorization. In opposition to the TFJFA ruling, IVG filed a direct writ for constitutional relief (amparo) before the Collegiate Circuit Court in the Federal District of Mexico City. The writs for constitutional relief was resolved by a ruling passed in April 2012, which granted the amparo in order for the TFJFA to assess all the evidence submitted by the parties, in particular the expert evidence introduced during the legal proceedings. In August 2012, the TFJFA issued a new ruling ratifying once more the validity of the environmental impact authorization and the sufficiency of the conditions and mitigation measures sufficient to prevent damage to the environment. IVG filed another writ for constitutional relief (amparo) against the TFJFA's judgment of August 2012, and for its part, ECA filed a review of amparo. In May 2013, the First Chamber of the Supreme Court of Justice of the Nation ruled to appeal against the writ for constitutional relief (amparo) filed by IVG. In a public session held on February 7, 2014, the First Chamber of the Supreme Court of Justice of the Nation ruled "dismiss the writ for constitutional relief (amparo)". Currently the ruling of the First Chamber of the Supreme Court of Justice of the Nation is in the drafting process. The Company considers that IVG claims are unfounded.

Motions for review against the environmental impact authorization for the LNG Terminal, filed by Castro, Valdez and Palafox. In May 2003, Hiram Castro Cruz and Roberto Valdez Castañeda ("Castro and Valdez"), jointly, and Monica Fabiola Palafox ("Palafox"), individually, filed appeals before the SEMARNAT against the issuance of the Environmental Impact Statement ("EIS") to the LNG Terminal in April 2003, based on allegations similar to those made by IVG. The SEMARNAT dismissed the appeals and the plaintiffs filed motions for annulment against the respective rulings before the TFJFA in Mexico City. In January 2006 and May 2010, the TFJFA issued judgments to annul the ruling with which the SEMARNAT had dismissed the motions for review and ordered the SEMARNAT to issue new rulings in compliance with said judgments. In the Castro and Valdez case, the SEMARNAT admitted the motion and in January 2012 it issued a new ruling confirming the validity of the EIS. In March 2012, Valdez filed a new motion for annulment before the TFJFA against the ruling issued by the SEMARNAT, which is now pending resolution. In the Palafox case, the SEMARNAT has not yet issued its ruling on the motion against the EIS. The Company considers that the Castro, Valdez, and Palafox claims are unfounded.

Motion for annulment filed by IVG against the port concession. In January 2005, IVG filed a revocation request before the SCT against the port concession that authorizes ECA to use national port facilities for its maritime operations. IVG claimed that the SCT should have applied certain environmental requirements in relation to the authorization of ECA's port concession and that the activities carried out by the LNG Terminal are not within the jurisdiction of the SCT, as well as that ECA had not conducted an environmental risk study and that the SEMARNAT had modified the EIS without notifying the SCT. In March 2005, the SCT dismissed the motion, and IVG then filed a motion for annulment before the Federal Tax and Administrative Court in Mexico City. In March 2010, the TFJFA overturned the

SCT's dismissal, and ordered the SCT to reconsider the motion. In May 2011, the SCT issued a new ruling determining the legality and validity of ECA's port concession on having met all the legal requirements. In August 2011, IVG filed a second motion for annulment before the TFJFA, reiterating its previous arguments and alleging, in addition, that the General Ports Director would have no authority to issue the agreement because it would come under the jurisdiction of the SCT. ECA appealed against the agreement through which the TFJFA admitted by the second motion for annulment, on the basis that the claims made by IVG were resolved during the first proceedings. The motion was resolved in June 2012 as founded; therefore the TFJFA dismissed IVG's motion for annulment. IVG filed a writ for constitutional relief (amparo) before the federal courts against the dismissal of the motion by TFJFA. The amparo was granted by lifting the dismissal of the motion for annulment. The motion for annulment is in process and the SCT and ECA have already responded to the petition in said process. The Company considers that IVG's claims are unfounded.

Writ of constitutional relief (amparo) filed by Sánchez Ritchie. ("Sánchez Ritchie"). In June 2010, Sánchez Ritchie filed a writ for constitutional relief (amparo) in the district court of the state of Baja California, Mexico, contesting the validity of all the permits and authorizations related to the construction and operation of the LNG terminal. In its write Sánchez Ritchie named 17 government bodies as defendants, including the SEMARNAT, the CRE, and the Municipality of Ensenada, among others. Notwithstanding that the first permits for the LNG Terminal had been issued more than six years before the writ was filed, Sánchez Ritchie states that the LNG Terminal's operation would adversely affect their rights as the supposed owner of the property adjacent to the LNG Terminal (which is disputed by ECA) and that the permits were granted to ECA in breach of their rights. Sánchez Ritchie is claiming damages and has requested the defendant government agencies to revoke the LNG Terminal permits. On June 17, 2010, the District Court issued a provisional judgment ordering the various authorities to suspend the ECA permits; however, this provisional judgment was revoked by the Circuit Court on June 24, 2010 before government authorities responded after the District Court denied the final suspension to Sanchez Ritchie, which was confirmed by the Collegiate Court. Each of the governmental authorities named in the writ for constitutional relief (amparo) denied the charges and confirmed the validity of their respective permits and authorizations. Sánchez Ritchie's allegation hearing has been postponed due to the filing of a large amount of appeal and other proceedings. Having resolved the appeals, the trial is still is process and is pending resolution. The Company considers that Sánchez Ritchie's claims are unfounded.

Motion for review against the environmental impact authorization for the LNG Terminal, filed by Inmuebles Baja Pacífico ("IBP"). In May 2006, IBP filed a class action before the PROFEPA, alleging that the conditions and mitigation measures imposed in the EIS were not sufficient and that ECA's operations could damage the environment and requested that said authorization be modified or revoked. The PROFEPA inspected the LNG Terminal and through an official communique of May 18 2010, notified IBP that ECA's operations complied with mitigation measures imposed in the EIS and do not cause any damage to the environment. IBP appealed against the PROFEPA's ruling before the TFJFA in Mexico City. The TFJFA ruled the judgment declaring the nullity of the authorization challenged in order that the PROFEPA's authorities may evaluate the evidence offered by IBP and rule of IBP's arguments. Both the Company and IBP filed writs of constitutional relief (amparo) against the TFJFA's ruling, which have been accepted and are being processed and are pending resolution. The Company considers that IBP 's claims are unfounded.

Municipal complaint filed by Sánchez Ritchie. In February 2011, Sánchez Ritchie filed an administrative complaint with the Urban Control Department ("DCU") of the Municipality of Ensenada in Baja California, Mexico challenging the legality of the land use permits and the construction permits issued for the LNG terminal in 2003 and 2004, respectively. Notwithstanding that the Municipality had ratified the validity of the permits in its response to Sanchez Ritchie's writ for constitutional relief (amparo) described above, shortly after receiving the complaint, the DCU issued a temporary closure order and ordered the immediate cessation of operations. The actions of the state and federal government authorities prevented the interruption of the terminal's operations, whereas ECA filed a response to the administrative complaint filed before the DCU, as well as a writ for constitutional relief (amparo) before the District Court in Ensenada. In March 2011, the District Court issued an injunction against the enforcement of the closure order pending resolution of ECA's writ for constitutional relief (amparo). Sánchez Ritchie and the Municipality appealed against the injunctions; however, the injunction was confirmed by the Collegiate Circuit Court in Mexicali. ECA's writ for constitutional relief is still is process and is pending resolution. The resolution of the administrative proceeding is stayed until the Company's writ for constitutional relief (amparo) amparo is ruled. The Company considers that Sánchez Ritchie's claims are unfounded.

Procedures related to the ownership of the land where the LNG Terminal is located

Civil lawsuit. In November 2004, Raul Francisco Miranda Pelayo, filed a lawsuit against the Company and various third parties before the civil court of Ensenada. Some of these third parties were involved in the initial stages of development of the LNG Terminal. Mr. Miranda Pelayo claimed to have better rights than the Company to the land on which the Terminal is located and demanded the restitution of the property and the payment of damages. Although the Company holds all the titles to the land on which the LNG terminal is located, Mr. Miranda Pelayo alleged that another property to which he holds title is located in approximately the same place, overlapping the LNG Terminal land. Miranda Pelayo died during the course of the proceedings and thereafter, his widow sought to have her rights as joint tenant

recognized in the case. The court rejected his widow's claims, who then filed an appeal before the Supreme Court of Justice of the State in Mexicali. The Supreme Court dismissed the appeal and in January 2012, Miranda Pelayo's widow filed a writ of constitutional relief (amparo) against the respective judgment before the Collegiate Circuit Court in Mexicali. To date, the Third Collegiate Court has admitted the writ of constitutional relief (amparo) filed by the above plaintiff; therefore, the resolution passed as trial level, which declared the termination of the procedure and ordered the plaintiff to pay court expenses and costs, became firm and conclusive and at this date the plaintiff or its succession cannot procedurally challenge this resolution. At the date of writing, this procedure is concluded in terms of the merits of the dispute.

Agricultural Claim. In February 2006, Salomon Arya Furst and Abraham Hanono Raffoul filed an action before the Unitary Agrarian Tribunal in Ensenada naming as defendants the Ministry of Agrarian Reform (Secretaría de la Reforma Agraria), the Company and 20 other parties. The suit seeks to annul property titles granted by the National Agrarian Registry for certain lots of land on which the LNG terminal is situated, as well as restitution of another lot allegedly in the same place, based on the grounds that the property titles were unduly issued to our predecessors and without considering the existing titles to said property.

On February 10, 2014, the Unitary Agrarian Tribunal of District 45 issued an interlocutory judgment that ruled on several deferred actions filed by the parties. The plaintiff filed a writ of constitutional relief (amparo) before the Ninth District Court of the XV Circuit. The amparo is ongoing at this time.

Other procedures

*Criminal investigation***.** In or about May 2009, Sánchez Ritchie filed with the state District Attorney in Ensenada a complaint alleging that "Sempra affiliates," several LNG terminal employees, and former members of the District Attorney's office committed the crime of procedural fraud in connection with a criminal claim the Company filed against Sánchez Ritchie in 2006 as part of the dispute over the possession of property adjacent to the LNG terminal, which is owned by the Company. In particular, we complained to the District Attorney's office in September 2006 that Sánchez Ritchie had committed the offense of dispossession on having forcibly entered the Company's property. In connection with that criminal proceeding, the Public Prosecutor's Office issued a provisional order to evict Sánchez Ritchie from the property. Sánchez Ritchie alleged in his 2009 complaint that the Company and the other defendants provided false information in order to obtain said order. The Public Prosecutor's Office official responsible for investigating such complaints, determined there was insufficient evidence to indict any defendant and closed the investigation, and in March 2011, the Criminal Court in Tijuana confirmed the dismissal. In September of 2011, Sánchez Ritchie filed a writ of constitutional relief (amparo) against the agreement confirmed in the investigation file. In October 2013 the Collegiate Court of the XV Circuit ordered to restore the procedure within writ of constitutional relief (amparo) number 539/11, as it had omitted to subpoena all the injured third parties. The indirect writ of constitutional relief (amparo) is pending before the District Court and the parties are in the process of being subpoenaed.

Termoeléctrica de Mexicali

In October 2009, José Andrés Hernández Raygoza and a related party filed an action before the Civil Court in Mexicali against Termoeléctrica de Mexicali, its predecessor with regard to a property title, and the Public Property and Commerce Registry (Registro Público de la Propiedad y de Comercio) claiming greater rights to the property owned on which the Termoeléctrica de Mexicali's generating plant is located. The claim is based on the alleged failure by the Company's predecessor-in-title, Camilo Wence Oseguera, to inform the Plaintiffs of certain proceedings conducted in 1987, in which Wence Oseguera acquired the title to the property, on the grounds that such proceedings were presumably only validly conferred title to uncontested property, but not the remaining portion because the plaintiffs had already claimed said property based on their continued occupation of same. The plaintiffs are seeking restitution of the property and the payment of losses and damages. This is the second such claim filed by Hernández Raygoza. The first claim was against Wence Oseguera and the government officials only, and Termoeléctrica de Mexicali was not named. In the first case, the court ruled that Hernández had failed to prove ownership of the property. The final hearing in the second case was held in March 2012, and in June 2012, the court ruled that the plaintiffs should have been given notice of the 1987 proceedings, and since they were not, Wence Oseguera's title and, in turn, the sale by party of the property to Termoeléctrica de Mexicali, were void. The court, however, declined to award title to plaintiffs. Termoelectrica de Mexicali appealed the court's judgment, so that in July 2013, the Supreme Court of Justice of the State of Baja California ruled in favor of Termoelectrica de Mexicali, thereby overturning the judgment of 2012 and reaffirming the validity of Termoelectrica de Mexicali's title of ownership of 2001.

In July 2013, the parties also signed a legal agreement with Termoeléctrica de Mexicali in which the abandoned any interest in the proceedings and in the land contested therein and thus reaffirming that Termoeléctrica de Mexicali is the sole and rightful owner of the property.

Energía Sierra Juárez

In November 2011, Terra Peninsular, A.C., a Mexican environmental organization, filed a motion for annulment before the TFJFA in Mexico City against the Environmental and Natural Resources Ministry's issuance of an

environmental authorization to the Company for the construction and operation of the Energía Sierra Juárez wind generation project. Terra Peninsular alleges that it was not notified about the resolution and that the environmental impact authorization was not evaluated in compliance with applicable law, and further alleges that had the SEMARNAT done so, it would have denied the authorization. However, Terra Peninsular does not specify which laws or regulations were not properly applied. Terra Peninsular further alleges that separate authorizations should have been required for the different phases of the project, and that the granting of a conditional authorization for the development of future phases that are not yet fully defined is inadequate to protect the environment. The TFJFA in Mexico City denied the provisional injunction sought by Terra Peninsular, but admitted its claim. Energía Sierra Juárez and the SEMARNAT filed our responses to Terra Peninsular's claim in June 2012, contending that Terra Peninsular's action is not timely and that the environmental impact authorization was issued validly. The court has admitted the experts appointed by the parties, and the experts appointed by Energía Sierra Juárez, the SEMARNAT and Terra Peninsular have submitted their reports. Moreover, the Court appointed its own expert and once said expert submit its report, the Court will rule the closure of the instruction of the trial 15 days later for the final arguments. Terra Peninsular's request for a final injunction was also denied. The Company considers that Terra Peninsular's actions are unfounded.

Gasoducto Sonora

In October 2012, one of the participants in the CFE's public tender processes for the construction and operation of four pipelines in the states of Sonora and Sinaloa, filed a writ of constitutional relief (amparo) before the District Courts in Mexico City against the tender procedure regarding the Sasabe-Guaymas segment and the award to Gasoducto de Aguaprieta, a subsidiary of the Company. Sásabe Pipeline's brought action against 11 different governmental authorities, including the CFE, the President of Mexico and the SENER. Sasabe Pipeline, which came second in this tender process, filed a general action for the injury to its rights, but specifically that it was discriminated against in the tender, as well as the illegal dismissal of its observations on the tender bases. No date has yet been set for the hearing of the writ for constitutional relief; therefore, the contract signed by and between Gasoducto de Aguaprieta and the CFE remains effective. In February 2013, the Company was notified of a writ for constitutional relief filed by Guaymas Pipeline, which is s part of the same business group as Sásabe Pipeline, pursuant to which Guaymas Pipeline demanded the annulment of the tender process for the Guaymas – El Oro segment, which was awarded to Gasoducto de Aguaprieta. Guaymas Pipeline did not file a proposal to the CFE in this tender process. The writ for constitutional relief (amparo) proceeding is similar to the other filed for the first segment, but in this case, no injunction was requested.

On April 15, 2013, Sásabe Pipelines, S. de R.L. de C.V. and Guaymas Pipelines, S. de R.L. de C.V. withdrew their respective writs of constitutional relief (amparo) filed last year against the CFE's tender process for the construction and operation of four pipelines in north west of Mexico, known as the North-Northwest Project and, particularly, against the awards of the Sásabe-Guaymas and Guaymas-El Oro segments to Gasoducto de Aguaprieta, S. de R.L. de C.V., an IEnova subsidiary. Based on the foregoing, the courts dismissed both writs for constitutional relief and, as a result, the award to Gasoducto de Aguaprieta, S. de R.L. de C.V. are no longer in dispute.

Other

In November 2012, the Attorney General of the United Mexican States and the Tax Attorney General of the United Mexican States dismissed a claim filed by a citizen against the Company and some of its affiliates, including certain directors and relevant officials and the indirect stockholder that controls the Company. The claim, which included allegations of tax fraud, smuggling and money laundering, was dismissed by the authorities have conducting the respective investigation, on considering the lack of any evidence that the Company has committed such offenses.

Summary of Legal Proceedings

The operations of our LNG terminal and Termoeléctrica de Mexicali have not been affected as a result of the various claims described above and both facilities continue to operate normally during these proceedings. Similarly, the legal action by Sásabe Pipeline and Guaymas Pipeline has not affected the development of the Sonora Pipeline project. However, a ruling against the Company in any of these claims could have a material adverse effect on the operations of the LNG Terminal, the Termoeléctrica de Mexicali or the development of the Sonora Pipeline project, which in turn, would adversely affect our activities, financial condition, results of operations, cash flows and outlook. For a description of certain risks to our business relating to the legal and administrative proceedings described above, please refer to the section "Risk Factors—The Result of Certain Legal Proceedings Filed Against the Company or in Relation to the Permits or Property Titles of the LNG Terminal, the Termoeléctrica de Mexicali, the wind generation project and the development of the Sonora Pipeline, may have an adverse effect on the Company's activities, financial condition, results of operations, cash flows and outlook."

xii. Capital Stock

Description of Capital and Corporate Bylaws

As of December 31st, 2013, the Company's outstanding capital stock consists of 1,154,023,812 single-series common registered shares with no par value, of which 5,000 represent Class I shares, representing the fixed capital, and 1,154,018,812 Class II shares that represent the variable capital portion. In addition, the Company has 15,867,828 variable capital treasury shares, issued through the Global Offer but unsubscribed. Immediately after the Global Offer and following the exercise of the Green Shoe Option, the number of outstanding shares amounts to 1,154,023,812 shares.

Capital Stock Variations in the Past Three Years

In the last three years during the fiscal years ended December 31, 2011, 2012 and 2013, the Company's capital stock has been increased on three occasions:

(1) On March 22, 2013, the Company announced the initial public offer in Mexico for 98,623,879 ordinary class II, single-series shares at a price of MXN$34.00 per share. At the same time, the Company set the price of its private international offer, which was conducted simultaneously, consisting of 91,037,426 ordinary shares at an offer price of supply equal to that of the public offer registered in Mexico. Both offers were settled on March 27, 2013. On that same date, the Company exercised the 30-day option to purchase up to a maximum of 28,449,195 ordinary shares at a price equal to the offers described above.

    The ordinary shares of these offers represent jointly 18.9 % of the Company's stockholding, including the exercise of the 30-day option for the purchase of additional shares.

(2) The general stockholders' meeting held on February 15, 2013, resolved to approve an increase in the Company's capital stock in the amount of MXN$1.00, which was subscribed and paid in full by Sempra Energy Holdings XI, B. V., as well as the transformation of the Company to a variable capital corporation. Before the Global Offer, the Company's capital stock consisted of 935,913,312 single-series common registered shares with no par value, of which 5,000 represent Class I shares, representing the fixed capital and 935,908,312 Class II shares that represent the variable capital portion.

(3) The ordinary general stockholders' meeting held on September 10, 2012, resolved to approve an increase of MXN$5.862 billion in the variable portion of the capital stock, which was fully subscribed and paid by Sempra Energy Holdings XI, B.V.

xiii. Dividends

After the public share offer in March 2013, the Ordinary General Stockholders' Meeting, held on October 7, 2013, resolved to decree a cash dividend of USD$117 million, equivalent to US$0.101384 per share. This dividend was paid on October 16, 2013.

On March 1, 2013, the company declared and paid dividends in the amount of MXN$500.4 million or USD$39 million from financial statements previously approved by the shareholders.

xiv. Foreign Exchange Controls and Other Restrictions that affect the Securities Holders

Not applicable.

3. FINANCIAL INFORMATION

a) Selected Financial Information

See “Presentation of Information” “Financial Statements”.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected consolidated financial and other data as of and for the periods indicated. These tables should be read in conjunction with the Company's financial statements and notes thereto included elsewhere in this Annual Report and are qualified in their entirety by the information contained therein Please refer to the section *“General Information - Glossary of Defined Terms - Presentation of the Information”*.

The information relating to the consolidated statements of income for the years ended December 31, 2011, 2012 and 2013, and the information on the consolidated statements of financial position at December 31, 2011, 2012 and 2013, are taken from the Company's audited financial statements included in this Annual Report. Investors should read this information together with the Company's Audited Financial Statements and their accompanying notes included in this Annual Report, as well as the information included in the sections entitled *“General Information - Glossary of Defined Terms - Presentation of the Information and “Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

Consolidated Statements of Profit and Loss

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Revenues	$ 822,476	$ 607,607	$ 677,836
Cost of revenues	(422,680)	(253,299)	(328,817)
Administrative and other expenses	(73,793)	(76,423)	(99,685)
Depreciation and amortization expenses	(63,080)	(61,349)	(61,164)
Interest income	883	1,027	1,372
Finance costs	(18,182)	(11,346)	(5,035)
Other (losses) and gains	(16,092)	(8,845)	6,986
Profit before income tax and share of profits of joint venture	**229,532**	**197,372**	**191,493**
Income tax expense	(76,006)	(40,801)	(83,792)
Share of profits of joint venture, net of income tax	21,577	37,444	34,689
Profit for the year	**$ 175,103**	**$ 194,015**	**$ 142,390**

Consolidated Statements of Financial Position

(in thousands of US$)	As of December 31, 2011	2012	2013
Assets			
Current assets			
Cash and cash equivalents	$ 27,364	$ 85,073	$ 103,880
Short-term investments in securities	-	-	207,027
Other current assets[1]	122,556	151,883	187,221
Total current assets	**149,920**	**236,956**	**498,128**
Non-current assets			
Investment in joint venture	294,155	331,599	366,288
Property, plant and equipment, net	1,885,959	1,884,739	2,213,837
Other non-current assets[2]	53,788	47,424	163,655
Total non-current assets	**2,233,902**	**2,263,762**	**2,743,780**
Total assets	**$ 2,383,822**	**$ 2,500,718**	**$ 3,241,908**
Equity and liabilities			
Current liabilities[3]	$ 88,009	$ 160,207	$ 193,089
Non-current liabilities			
Long-term debt [4]	**-**	**-**	394,656
Due to related parties	334,660	331,803	38,893
Other non-current liabilities[5]	265,890	245,590	298,858
Total non-current liabilities	**600,550**	**577,393**	**732,407**
Total liabilities	**688,559**	**737,600**	**925,496**
Total stockholders' equity	**1,695,263**	**1,763,118**	**2,316,412**
Total liabilities and stockholders' equity	**$ 2,383,822**	**$ 2,500,718**	**$ 3,241,908**

(1) Other current assets include trade and other receivables – net, current amounts due from related parties, value added tax recoverable, inventory of natural gas, derivative financial instruments and other less-significant current assets.

(2) Other non-current assets include accounts receivable from related parties, derivative financial instruments, finance lease receivables, deferred income tax assets, goodwill, carbon allowance and other less-significant non-current assets.

(3) Current liabilities include trade and other payables, accounts payable to related parties, current tax liabilities, derivative financial instruments, other financial liabilities, other payable taxes, provisions and other less-significant current liabilities.

(4) Long-term indebtedness related to CEBURES.

(5) Other non-current liabilities include deferred income tax liabilities, non-current provisions, derivative financial instruments and post-employment and other long-term employee benefits.

Other Financial and Operating Data

EBITDA

This annual report includes the Company's EBITDA and adjusted EBITDA for purposes of convenience of investors. However, neither the EBITDA nor the adjusted EBITDA are recognized by the IFRS as measures of financial performance and should not be considered as alternatives to net income or operating income to measure operating performance or the cash flows generated by the operations to measure liquidity. The Company defines the EBITDA as the consolidated and combined profit after adding or subtracting (as appropriate): (1) depreciation and amortization; (2) interest income and the financial cost; (3) tax expense and (4) certain other profits (losses), including the net foreign currency gain (loss), the (loss) gain on net financial liabilities classified for trading purposes in relation to changes in the fair value of the interest-rate swaps and the effects of inflation on refunds of creditable value added tax. The Company defines the adjusted EBITDA as the EBITDA obtained after adding or subtracting (as applicable), 50% of depreciation and amortization, interest income, the financial cost and tax expense of the joint venture with Pemex Gas, Gasoductos de Chihuahua, which is accounted for using the equity method.

The Company uses the adjusted EBITDA to evaluate its operational performance, as part of the process of managing its operations. The Company considers that the adjusted EBITDA helps to better understand its financial performance and its ability to meet its obligations to pay the principal and interest on its debt and to finance its investments in assets and its working capital needs. The Company considers that the adjusted EBITDA also facilitates the comparison of its results with those of other companies by showing its results of operation separate from its capital structure, the lives and depreciation of its fixed assets, and its tax expense obligations. The value of the adjusted EBITDA as a measure of the Company's overall profitability is substantially limited given that certain constant costs related to its operations that could substantially affect profitability, including depreciation and amortization, interest income, the financial cost, tax expense and other expenses incurred by the Company. It also does not consider the depreciation and amortization, interest income, the financial cost and tax expense of Gasoductos de Chihuahua. It is possible that the Company's adjusted EBITDA is not comparable with the measures reported under similar titles by other companies.

The following table contains reconciliation between the Company's profit, EBITDA and adjusted EBITDA.

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Profit for the year	$ 175,103	$ 194,015	$ 142,390
Depreciation and amortization	63,080	61,349	61,164
Interest income	(883)	(1,027)	(1,372)
Finance costs	18,182	11,346	5,035
Other gains and (losses)	16,092	8,845	(6,986)
Income tax expense	76,006	40,801	83,792
Share of profits of joint venture	(21,577)	(37,444)	(34,689)
EBITDA	**326,003**	**277,885**	**249,334**
Share of profits of joint venture	21,577	37,444	34,689
Share in the depreciation, amortization, interest income, finance costs and income tax expense of joint venture	25,706	14,746	19,062
Adjusted EBITDA	**$ 373,286**	**$ 330,075**	**$ 303,085**

The following table shows the investments in property, plant and equipment and the Adjusted EBITDA per segment for 2011, 2012 and 2013.

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Payments of property, plant and equipment	$ 20,517	$ 50,278	$ 369,672
EBITDA	**$326,003**	**$ 277,885**	**$ 249,334**
Adjusted EBITDA	**$373,286**	**$ 330,075**	**$ 303,085**
Adjusted EBITDA by reporting segment:			
Gas Segment...	304,577	310,862	289,592
Power Segment...	70,051	20,799	14,604
Corporate..	(1,342)	(1,586)	(1,111)

b) Financial Information by Business Segment and Exports

Segment Information

In accordance with the Audited Financial Statements, below is a summary of the information by business segment.

Products and services from which reportable segments derive their revenues

Information reported to the Company's chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Our reportable segments under IFRS 8, “Operating Segments” are the Gas segment and the Power segment. The Company's assets are divided between two business segments: (1) our gas segment, which includes our pipelines business, our LNG business, which includes the storage and gasification of LNG, as well as the sale and purchase of natural gas to the Company's customers and our natural gas distribution business, and (2) our power segment, which includes power generation in natural gas-powered combined cycle plant, the Termoeléctrica de Mexicali plant and the wind farm project currently under construction in Baja California, Energía Sierra Juárez, in order to supply customers in the United States. In addition, the Company reports corporate revenue and costs not directly attributable to a specific business segment, which are identified in the corporate line item. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

Results by Segment in the Audited Financial Statements

Revenue by segment

The following table presents an analysis by on-going operations by segment reportable by the Company.

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Gas Segment			
Customer sales	$ 550,921	$ 478,273	$ 507,814
Inter-segment sales	144,664	169,595	252,117
Power Segment			
Customer sales	269,714	127,656	168,340
Inter-segment sales	5,139	5,890	52,950
Corporate			
Customer sales	1,841	1,678	1,682
Inter-segment sales	1,957	3,117	35,854
Total revenues before adjustments and eliminations	974,236	786,209	1,018,757
Inter-segment adjustments and eliminations	(151,760)	(178,602)	(340,921)
Total revenues by segment	**$ 822,476**	**$ 607,607**	**$ 677,836**

Profit by segments

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Gas Segment	$ 141,075	$ 222,568	$ 180,296
Power Segment	37,767	6,868	8,567
Corporate	(3,739)	(35,421)	(46,473)
Total profit	**$ 175,103**	**$ 194,015**	**$ 142,390**

Assets and liabilities by segment

(in thousands of US$)	Years Ended December 31, 2011	2012	2013
Assets by segment:			
Gas Segment	$ 1,981,205	$ 2,101,378	$ 2,413,965
Power Segment	372,714	360,494	433,894
Corporate	29,903	38,846	394,049
Total consolidated assets	**$ 2,383,822**	**$ 2,500,718**	**$ 3,241,908**
Liabilities by segment:			
Gas Segment	$ 297,469	$ 243,904	$ 272,298
Power Segment	64,972	59,084	64,794
Corporate	326,118	434,612	588,404
Total consolidated liabilities	**$ 688,559**	**$ 737,600**	**$ 925,496**

Other Segment Information

(in thousands of US$)	Property, plant and equipment Years Ended December 31, 2011	2012	2013	Cumulative depreciation and amortization Years Ended December 31, 2011	2012	2013
Gas Segment	$ 1,757,312	$ 1,813,044	$ 2,138,129	$ (197,932)	$ (243,429)	$ (287,407)
Power Segment	436,280	442,518	504,595	(117,538)	(135,421)	(150,791)
Corporate	10,155	11,066	13,156	(2,318)	(3,039)	(3,845)
	$ 2,203,747	**$ 2,266,628**	**$ 2,655,880**	**$ (317,788)**	**$ (381,889)**	**$ (442,043)**

(in thousands of US$)	Depreciation and amortization Years Ended December 31, 2011	2012	2013	Additions of property, plant and equipment Years Ended December 31, 2011	2010	2013
Gas Segment	$ 42,543	$ 42,830	$ 44,605	$ 11,706	$ 40,371	$ 337,545
Power Segment	19,759	17,755	15,420	8,458	5,960	63,345
Corporate	778	764	1,139	353	966	5,246
	$ 63,080	**$ 61,349**	**$ 61,164**	**$ 20,517**	**$ 47,297**	**$ 406,136**

(in thousands of US$)	Interest income Years Ended December 31, 2011	2012	2013	Finance cost Years Ended December 31, 2011	2012	2013
Gas Segment	$ 699	$ 999	$ 1,140	$ (639)	$ (1,355)	$ 12,046
Power Segment	2	3	5	645	364	683
Corporate	182	25	227	(18,188)	(10,355)	(17,764)
	$ 883	**$ 1,027**	**$ 1,372**	**$ (18,182)**	**$ (11,346)**	**$ (5,035)**

(in thousands of US$)	Profit sharing of joint ventures Years Ended December 31, 2011	2012	2013	Benefit (expense) for taxes on earnings Years Ended December 31, 2011	2012	2013
Gas Segment	$ 21,577	$ 37,444	$ 34,689	$ (84,118)	$ (29,559)	$ (57,165)
Power Segment	-	-	-	(11,829)	2,479	9,158
Corporate	-	-	-	19,941	(13,721)	(35,785)
	$ 21,577	$ 37,444	$ 34,689	$ (76,006)	$ (40,801)	$ (83,792)

Revenues by type of products or services

The following table contains an analysis of our revenues by main type of products and services

in thousands of US$)	Years Ended December 31, 2011	2012	2013
Power generation	$ 269,491	$ 127,656	$ 168,340
Sale of natural gas	205,112	144,483	169,832
Storage and regasification	93,560	94,174	93,785
Distribution of natural gas	91,300	78,128	99,235
Transportation of natural gas	49,220	52,298	44,335
Other operating revenues	113,793	110,868	102,309
	$ 822,476	**$ 607,607**	**$ 677,836**

Other operating revenues

In November 2009, LNG Marketing México entered into an agreement with LNG International LLC ("LNG International"), a related party, whereby LNG International agreed to deliver and sell LNG cargoes to LNG Marketing from the commencement date of operations of the LNG Terminal Accordingly, LNG Marketing entered into transportation and storage service agreements to market the LNG.

Due to a lack of LNG cargoes, LNG Marketing México received payments from LNG International related to the losses and obligations incurred in 2013, 2012 and 2011, for USD$90,762, USD$107,754 and USD$109,938, respectively, which are presented within the revenues line item in the accompanying interim consolidated profit and loss statements.

c) Relevant Credits Report

CEBURES Offering

On February 14, 2013, the Company issued two series of CEBURES in an aggregate principal amount of MXN$5.2 billion (approximately USD$408 million using the exchange rate of MXN$12.7364 to USD$1.00, as reported by Banco de México on February 12, 2013, the date on which we entered into the exchange rate swap agreements described below).

The aggregate amount of the first issue was MXN$3.9 billion (equivalent to USD$306 million) with a term of 10 year at a fixed interest rate of 6.30% and the aggregate amount of the second issue was MXN$1.3 billion (equivalent to USD$102 million) with a term of 5 years at an interest rate equivalent to the TIIE plus 0.30%.

The Company applied a portion of the net proceeds of the debt issues, which were approximately USD$405 million, to repay USD$356 million in affiliate debt and for general corporate purposes, including the partial funding of our investment plans (the development of new gas pipeline projects) and working capital.

On February 12, 2013, the Company entered into swap agreements with financial institutions to mitigate the risk of rising interest rates and its exposure to exchange fluctuations in connection with our CEBURES offering. With these agreements, the Company obtained a fixed interest rate for the issue of 5-year CEBURES and for both issues, converted the Mexican peso-denominated principal amounts and the Mexican peso-denominated interest rates payable to US dollars. Please refer to *"Liquidity and Capital Resources—Existing Indebtedness"*.

d) Management's Discussion and Analysis of the Results of Operations and the Financial Condition

Investors should read the information below together with the Company's Audited Financial Statements, as well as the other financial information included in this Annual Report. The Company's Audited Financial Statements were prepared in accordance with IFRS as issued by the IASB.

i) Results of Operations

The following table summarizes the Company's Results of Operations for the years ended December 31, 2011, 2012 and 2013, including the corresponding variances in said results from one year to the next.

(in thousands of US$, except percentages)	Years Ended December 31,			Variance			
	2011	2012	2013	2011-2012		2012-2013	
Revenues	$ 822,476	$ 607,607	$ 677,836	$(214,869)	(26.1)%	$ 70,229	11.6%
Cost of revenues	(422,680)	(253,299)	(328,817)	169,381	40.1%	(75,518)	(29.8)%
Administrative and other expenses	(73,793)	(76,423)	(99,685)	(2,630)	(3.6)%	(23,262)	(30.4)%
Depreciation and amortization expenses	(63,080)	(61,349)	(61,164)	1,731	2.7%	(185)	0.3%
Interest income	883	1,027	1,372	144	16.3%	345	33.6%
Finance costs	(18,182)	(11,346)	(5,035)	6,836	37.6%	6,311	55.6%
Other (losses) and gains	(16,092)	(8,845)	6,986	7,247	45.0%	15,831	n.s.
Profit before income tax and share of profits of joint venture	229,532	197,372	191,493	(32,160)	(14.0)%	(5,879)	(3.0)%
Income tax expense	(76,006)	(40,801)	(83,792)	35,205	46.3%	(42,991)	n.s.
Share of profits of joint venture, net of income tax	21,577	37,444	34,689	15,867	73.5%	(2,755)	(7.4)%
Profit for the year	$ 175,103	$ 194,015	$ 142,390	$ 18,912	10.8%	$ (51,625)	(26.6)%

Profit for the year

The following table summarizes the Company's profit for the years ended December 31, 2011, 2012 and 2013, including the corresponding variances between those years. Segment profit is presented after eliminating the effects of inter-company transactions.

(in thousands of US$, except percentages)	**Years Ended December 31,**			**Variance**			
	2011	**2012**	**2013**	**2011-2012**		**2012-2013**	
Profit for the year							
Gas Segment	$141,075	$222,568	$180,296	$81,493	57.8%	$(42,272)	(19.0)%
Power Segment	37,767	6,868	8,567	(30,899)	n.s.	1,699	24.7%
Corporate	(3,739)	(35,421)	(46,473)	(31,682)	n.s.	(11,052)	31.2%
Profit for the year	**$175,103**	**$194,015**	**$142,390**	**$18,912**	**10.8%**	$(51,625)	(26.6)%

Unless otherwise indicated, all the variances in the profit from one year to the next are presented net of taxes on earnings.

Gas Segment

In 2013, gas segment profit for the year decreased by USD$42.3 million, or 19.0%, in 2013 compared to 2012. This decrease was due mainly to an increase of USD$27.6 million in income tax expense due to the fiscal reform, mainly the income tax rate increase from 28% to 30% of long term tax assets and increased administration costs of USD$16.7 million for the disbursement of expenses related to the Company's new corporate structure. Please refer to the section *"—Risk Factors - Changes in the relative value of the Mexican peso against the US dollar that may adversely and significantly affect the Company."*

In 2012, gas segment profit increased by USD$81.5 million, or 57.8%, in 2012 compared to 2011. The increase was mainly due to a decrease of USD$54.6 million in income tax expense, which in turn was due mainly to the effects of exchange rate fluctuations on balances of deferred income tax expense related to property, plant and equipment at the end of the year, as well as an increase of USD$15.9 million in the profit from our joint venture with Pemex Gas, due mainly from a decrease in income tax expense resulting from real appreciation of the Mexican peso, the final approval by the CRE of higher rates applicable to our TDF LPG pipeline system and an increase in interruptible transportation services. In addition, this increase reflected a decrease of USD$8.9 million of other losses due to the effect of the translation of the functional currency as a result of the effect of the exchange rate fluctuation on Mexican peso-denominated accounts in our pipelines business. Please refer to the section *"—Risk Factors - Changes in the relative value of the Mexican peso against the US dollar that may adversely and significantly affect the Company."*

Power Segment

In 2013, power segment profit for the year increased by USD$1.7 million compared to 2012, due mainly to an increase of USD$6.7 million in the income tax benefit related to the cancellation of deferred flat tax (IETU), the effect of recognition of tax losses not recognized as an asset in the year 2012 and the inflation effect on certain assets and liabilities. Please refer to the section *"—Risk Factors - Changes in the relative value of the Mexican peso against the US dollar that may adversely and significantly affect the Company."*

In 2012, power segment profit for the year decreased by USD$30.9 million compared to 2011, primarily due to lower revenue resulting from the expiration of a power sale and purchase agreement with the DWR, which had been in force until September 2011, which resulted in a change in the agreement with our affiliate Sempra Natural Gas effective as of January 1, 2012. This decrease was partially offset by an increase in revenues compared to prior year during which our Termoeléctrica de Mexicali was shut down for approximately one and one-half months due to a fire and due to a decrease of income tax expense of USD$14.3 million, primarily resulting from the effect of exchange rate fluctuations on the deferred tax balances of property, plant and equipment at year end.

Corporate

In 2013, corporate loss for the year decreased by USD$11.1 million compared to 2012, due mainly to the increase of USD$17.0 million in the valuation of an interest-swap transaction to its mark-to-market value in the corporate segment, which compared to 2012, was partially offset by the exchange rate loss reported during the year.

Corporate loss for the year increased by USD$31.7 million in 2012 compared to 2011, principally due to an income tax increase of USD$33.6 million primarily resulting from the effect of exchange rate fluctuations and a loss of USD$3.8 million due to the mark-to-market adjustment of the interest rate swap, offset by a decrease of finance costs of USD$5.5 million due to a prior year repayment of an affiliate loan.

Revenues

The following table summarizes the Company's revenues for the years ended December 31, 2011, 2012 and 2013, and the respective year-on-year variances. Segment revenue is presented after eliminating the effects of inter-company transactions.

(in thousands of US$, except percentages)	**Years Ended December 31,**			**Variance**			
	2011	**2012**	**2013**	**2011-2012**		**2012-2013**	
Revenues:							
Gas Segment	$550,921	$478,273	$507,814	(72,648)	(13.2)%	$29,541	6.2%
Power Segment	269,714	127,656	168,340	(142,058)	(52.7)%	40,684	31.9%
Corporate	1,841	1,678	1,682	(163)	(8.9)%	4	0.2%
Total Revenue	**$822,476**	**$607,607**	**$677,836**	**(214,869)**	**(26.1)%**	70,229	11.6%

Gas Segment

In 2013, gas segment revenues increased by USD$29.5 million, or 6.2%, compared to 2012, due to the increase of USD$45.8 million in natural gas sales as a result of the increase in gas prices. This variance was partially offset by a decrease of USD$17.0 million due to changes to commercial arrangements.

In 2012, gas segment revenue decreased by USD$72.6 million, or 13.2%, compared to 2011, primarily as a result of a decrease of USD$40.8 million in natural gas sales due mainly to lower sales prices and a decrease of USD$24.4 million in LNG revenue due to lower LNG volumes sold.

Power Segment

In 2013, power segment revenue increased by USD$40.7 million, or 31.9%, compared to 2012, due to higher electricity prices.

In 2012, power segment revenue decreased by USD$142.1 million, or 52.7%, compared to 2011, due to the expiration of a power sale and purchase agreement with the DWR in September 2011, which resulted in a change in the agreement with our affiliate, Sempra Generation, effective as of January 1, 2012. This decrease was partially offset by an increase in revenues compared to the prior year, in which our Termoeléctrica de Mexicali power plant was shut down due to a fire.

Corporate

The revenues generated by corporate relate to fees that we bill to non-subsidiary affiliates for certain accounting and financial reporting services as well as for other administrative services and the use of certain facilities.

Cost of revenues

The following table summarizes the cost of revenues and related variances for the years ended December 31, 2011, 2012 and 2013. The cost of revenues by segment is presented after eliminating the effects inter-company transactions.

(in thousands of US$, except percentages)	**Years Ended December 31,**			**Variance**			
	2011	**2012**	**2013**	**2011-2012**		**2012-2013**	
Cost of revenues:							
Gas Segment	$240,826	$163,396	$199,053	$77,430	32.2%	$(35,657)	(21.8)%
Power Segment	181,854	89,903	129,764	91,951	50.6%	(39,861)	(44.3)%
Total cost of revenues	**$422,680**	**$253,299**	**$328,817**	**$169,382**	**40.1%**	**$(75,518)**	**(29.8)%**

Gas Segment

In 2013, the cost of revenues increased by USD$35.7 million, or 21.8%, compared to 2012, primarily due to an increase of USD$36.4 million due to higher natural gas prices.

In 2012, the cost of revenues decreased by USD$77.4 million, or 32.2%, compared to 2011, primarily due to a decrease of USD$66.5 million from lower natural gas prices. Cost of revenues also decreased by USD$11.9 million due mainly to lower natural gas prices and exchange rate fluctuations had a greater effect on the Ecogas distribution business.

Power Segment

In 2013, the cost of revenues increased by USD$39.9 million, or 44.3%, compared to 2012, primarily due to USD$17.2 million related to the “Cap-and-Trade” program established in 2013 by the California Air Resources Board ("CARB") and the increase in the natural gas cost by USD$19.5 million.

In 2012, the cost of revenues decreased by USD$92.0 million, or 50.6%, compared to 2011, primarily due to the expiration of an agreement with the DWR in September 2011, which resulted in a change in the agreement with our affiliate Sempra Generation effective as of January 1, 2012.

Administrative and other expenses

In 2013, the total of administrative and other expenses increased by USD$23.3 million, or 30.4%, compared with 2012. This increase is mainly attributable to the gas segment, which reflected higher services, salaries, employment benefits related to the new public company structure. In 2012, the total of administrative and other expenses increased by USD$2.6 million, equivalent to 3.6%, compared with 2011. This increase was due mainly to the gas segment, which experienced an increase in maintenance, salaries and, employment benefit expenses, rights of way payments, services received from affiliates in the United States and development costs related to the Sonora Project.

Depreciation and amortization

Depreciation and amortization expenses remained relatively stable in 2013 compared to 2012 and in 2012 compared to 2011.

Finance cost

Finance costs decreased by USD$6.3 million, or 55.6%, in 2013 compared to 2012. This decrease resulted from the capitalization of interest in the amount of USD$11.8 million for the construction of the Gasoducto Sonora and a reduction of USD$7.6 million in interest paid to related parties because in 2013, the amount of USD$356 million of loans granted by affiliates was paid. These effects were partially offset by the payment of interest of the long-term CEBURES debt in the amount of USD$13.6 million.

Finance costs decreased by USD$6.8 million, or 37.6%, in 2012 compared to 2011. This decrease is mainly attributable to the corporate segment of the Company, since in 2011, the amount of USD$138.5 million of loans granted by affiliates was paid, which resulted in a decrease of USD$5.6 million in interest accrued on the debt with affiliates.

Other Losses and Gains

In 2013, other gains increased by USD$15.8 million compared with other losses of USD$8.8 million in 2012, due mainly to the USD$17.0 million-increase in the valuation of an interest rate swap transaction to its mark-to-market value in the corporate segment, which compared to 2012, was partially offset by the exchange rate loss reported during the year.

Other losses decreased by USD$7.3 million, or 45.0%, in 2012 compared to 2011, primarily due to a USD$12.8 million decrease in unfavorable translation effects in our pipelines business, which was offset by a USD$5.5 million increase in mark-to-market losses on an interest rate swap in corporate, which in turn was partially offset by the foreign exchange loss reported during the year.

Income Tax Expense

In 2013, income tax expense of USD$83.8 million compared to USD$40.8 million compared to 2012. This increase was the result of the fiscal reform, mainly the deconsolidation and the impact on deferred tax liability because of the income tax rate change from 28% to 30%, the effect of a change in inflation rate and the foreign currency exchange rate effects, partially offset by the recognition of a deferred tax asset related to tax losses.

Income tax expense was USD$40.8 million in 2012. This figure represented a decrease compared to the income tax expense reported in 2011, due to the effect of a change in the inflation rate, the translation of tax balances into the Company's functional currency, changes in the inflation rate and foreign currency exchange rates, as well as the effect of unused tax losses not recognized as deferred tax assets.

Share of Profits of Joint Venture, Net of Income Tax

In 2013, share of profits of joint venture, was USD$34.7 million in 2013, consistent with USD$37.4 million during 2012. Share of profits of our joint venture, net of income tax, increased by USD$15.9 million in 2012 compared to 2011, primarily due to a USD$9.0 million decrease in income tax expense at the joint venture resulting from real appreciation of the Mexican peso, USD$6.7 million increase in profits of the joint venture resulting from the final approval by the CRE of higher rates applicable to our TDF LPG pipeline system, an increase in interruptible transportation services provided to third parties and tariff inflation adjustments in our San Fernando pipeline.

Adjusted EBITDA

The following table summarizes the Company's adjusted EBITDA and the respective year-on-year variances for the years ended December 31, 2011, 2012 and 2013. Segment adjusted EBITDA is presented after eliminating inter-company transactions.

(in thousands of US$, except percentages)	**Years Ended December 31,**			**Variance**			
	2011	**2012**	**2013**	**2011-2012**		**2012-2013**	
Adjusted EBITDA							
Gas Segment..........................	$304,577	$310,862	$289,592	$6,285	2.1%	$(21,270)	(6.8)%
Power Segment......................	70,051	20,799	14,604	(49,252)	(70.3)%	(6,195)	(29.8)%
Corporate...............................	(1,342)	(1,586)	(1,111)	(244)	(18.2)%	475	(29.9)%
Total Adjusted EBITDA	**$373,286**	**$330,075**	**$303,085**	**$(43,211)**	**(11.6)%**	**(26,990)**	**(8.2)%**

ii) Financial Situation; Liquidity and Capital Resources

Liquidity and Capital Resources

Overview

Historically, the Company's operations have generated and are expected to continue to generate positive cash flow from operations. The Company's principal capital needs are for working capital in order to invest in maintenance, expansions and acquisitions, as well as debt service. The Company's ability to fund its working capital needs depends on its ongoing ability to generate cash from operations, the terms of our financing arrangements and our access to the capital markets. The Company believes that in the future, the cash generated from operations, together with access to debt financing and the equity capital markets, will provide adequate resources to fund our operating activities, capital expenditures, acquisitions and new business development activities.

A substantial portion of the production capacity of the Company's assets across our business segments is committed under long-term agreements with customers, which provides us with a generally steady and predictable cash flow. The Company's counter-parties with respect to the substantial majority of these agreements are stable, credit worthy, private or state-owned entities.

The cash flows generated by the Company's operations are divided into inward flows that are represented by revenues, and outward flows, which consist of the cost of revenues and the increases in working capital necessary due to business growth. The cash flows used in the Company's investing activities represents investments in property, plant and equipment required for our growth, expansion and maintenance, as well as our acquisition activities. The cash flows generated by the Company's financing activities are primarily related to changes in indebtedness with affiliates borrowed to grow our business, repayment of indebtedness with cash from operations or refinancing transactions and the payment of dividends.

The Company expects that its cash flows from operations, added to its capacity for future borrowing, will be sufficient to finance liquidity requirements for the foreseeable future. The Company is also subject to certain capitalization requirements imposed by governmental agencies on our regulated pipelines and natural gas distribution businesses.

Liquidity

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

Sources and Uses of Cash

	Years Ended December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Cash at period beginning	$ 54,379	$ 27,364	$ 85,073
Net cash generated by operating activities	297,909	173,432	162,760
Net cash used in investing activities	(25,751)	(49,275)	(576,699)
Net cash (used in) provided by financing activities	(298,067)	(69,207)	436,144
Change in the balance of cash held in foreign currencies	(1,106)	2,759	(3,398)
Cash and cash equivalents at period end	$ 27,364	$ 85,073	$ 103,880

Net cash provided by operating activities

Net cash provided by operating activities decreased from USD$173.4 million in 2012 to USD$162.8 million in 2013, mainly due to an increase on tax expense by USD$39.2 million and USD$25.3 million of lower operative cash generation, partially offset by a liability increase on the working capital by USD$53.7 million.

The net cash generated by operating activities decreased from USD$297.9 million in 2011 to USD$173.4 million in 2012, primarily due to a decrease of USD$42.1 million in accounts payable, an increase in accounts receivable of USD$53.1 million and lower operative cash generation.

Net cash used in investing activities

The Company maintains financial resources sufficient to meet its financial commitments in relation to its own and its subsidiaries' capital expenditures and other investing activities.

Net cash used in investing activities in 2013 was USD$576.7 million, primarily due to acquisitions of property, plant and equipment in the amount of USD$369.7 million and USD$207.0 million in short-term investments.

Net cash used in investing activities in 2012 increased to USD$49.3 million, primarily due to acquisitions of property, plant and equipment in the amount of USD$50.3 million less USD$1.0 million of interest income.

Net cash used in investing activities in 2011 was USD$25.8 million, primarily due to USD$20.5 million in acquisitions of property, plant and equipment and US$6.1 million in payments for long-term service agreements.

Net cash (used in) provided by financing activities

Net cash used in financing activities in 2013 amounted to USD$436.1 million. The main sources of cash were USD$598.8 million from the issuance of ordinary shares through an initial public offering and USD$408.3 million through the issuances of CEBURES long-term debt. The main uses of cash in financing activities were USD$388 million from the payment of inter-company loans and dividends payments of USD$156 million.

Net cash used in financing activities in 2012 amounted to USD$69.2 million. The main sources and uses included USD$128.7 million in loan repayments to affiliates, proceeds of USD$209.0 million in new loans from affiliates and dividend payments of USD$140.1 million to our indirect controlling stockholder.

Net cash used in financing activities in 2011 amounted to USD$298.1 million. The main sources and uses included USD$688.1 million in loan repayments to affiliates, proceeds of USD$488.1 million in new loans from affiliates and dividend payments of USD$80.0 million to our indirect controlling stockholder.

Existing Indebtedness

Historical

	As of December 31,		
(in thousands of US$)	**2011**	**2012**	**2013**
Current debt due to related parties..	-	$ 93,455	$ 3,655
Non-current debt due to related parties...	$334,660	$331,803	$ 38,893
Non-current CEBURES debt..	-	-	$394,656

CEBURES Offering. On February 14, 2013, the Company issued two series of CEBURES in an aggregate principal amount of MXN$5.2 billion (approximately USD$408 million using the exchange rate of MXN$12.7364 to USD$1.00, as reported by Banco de México on February 12, 2013, the date on which we entered into the exchange rate swap agreements described below). The aggregate amount of the first issue was MXN$3.9 billion (equivalent to USD$306 million) with a term of 10 year at a fixed interest rate of 6.30% and the aggregate amount of the second issue was MXN$1.3 billion (equivalent to USD$102 million) at an interest rate equivalent to the TIIE plus 0.30%. The Company applied a portion of the net proceeds of both debt issues, which were equivalent to approximately USD$405 million, to repay approximately USD$356.0 million in

affiliate debt, and the remaining proceeds were applied to the partial financing of the acquisition of property, plant and equipment.

The CEBURES include certain obligations including to: (i) comply in all material respects with all requirements of filing information, quarterly and annually and any other required information according to the LMV and other provision, and (ii) not to be merged (consolidated or otherwise), except that (i) the company or entity resulting from the merger (or consolidation) expressly assume obligations of the issuer, and (ii) do not occur a case of early termination under the Certificates as a result of such merger or consolidation.

Exchange Rate and Interest Rate Swap Agreements On February 15, 2013, in relation to public CEBURES offerings, the Company entered into celebrated swap contracts of exchange rate and interest rate swap agreements to hedge its exposure to the payment of its liabilities denominated in Mexican Pesos:

(a) For the debt maturing in 2018, the variable rate in Mexican Pesos was exchanged to a fixed rate in US dollars by exchanging of capital and interest payments. The weighted average interest rate in US dollars for these CEBURES was 2.6575%.

(b) For the debt maturing in 2023, the fixed rate in Mexican Pesos was exchanged to a fixed rate in US dollars by exchanging of capital and interest payments. The weighted average interest rate in US dollars for these CEBURES was 4.1240%.

The sum of the notional value of the swap is USD$408.279 million (MXN$5.2 billion pesos).
These contracts have been designated as cash flow hedges.

As of December 31, 2013, the Company paid interest related to the long-term stock certificates (CEBURES) in the amount of USD$13.6 million.

Our affiliate loans as of December 31, 2013 have maturities ranging from March 2017 through December 2027 and accrued interest at average annual rates ranging from 3.27% to 3.04% in 2013 and 2012. As of December 31, 2013, the Company paid interest on the debt with non-consolidated affiliates in the amount of USD$2.8 million.

At December 31, 2012, all of the Company's significant debt obligations were related to credits granted to it by non-consolidated affiliates. In 2012 and 2011, the Company paid interest in the amounts of USD$9.4 million and USD$18.0 million, respectively, and capital in the amounts of USD$128.7 million and USD$688.1 million, respectively.

Capital Expenditures

The Company expects to continue implementing various investment diversification strategies in the energy infrastructure sector that are capable of generating stable cash flows as well as expanding into other related businesses to increase revenues and profitability. The Company intends to achieve this goal by pursuing a disciplined, targeted growth strategy, which includes:

- Long-term investments in energy infrastructure assets in Mexico;
- The on-going expansion of our network of energy assets in Mexico;
- The constant focus on assets that produce stable cash flows;
- The continued growth of our joint venture with Pemex Gas; and
- Maximizing the efficiencies and profitability of our current energy assets.

In 2011, 2012 and 2013, the Company made capital expenditures of USD$26.6 million, USD$50.3 million and USD$369.7 million, respectively. These capital expenditures mainly included expenditures related to acquisitions of property, plant and equipment, fee payments pursuant to a long-term service agreement for our Termoeléctrica de Mexicali power plant and, in 2012 and in 2013, the development of our Sonora Pipeline and Energia Sierra Juarez wind generation project.

The Company estimates that our capital expenditures for 2014, excluding expenditures made in connection with any business acquisitions, will amount to approximately USD$560.0 million, and will be allocated primarily to expenditures for property, plant and equipment, expenditures for investments and capitalized interest, as summarized in the table below.

The following table shows the capital expenditures currently budgeted for 2014, 2015 and 2016 (excluding capital expenditures of our joint venture with Pemex Gas).

(in millions of US$)	**Gas**	**Power**
2014	350	210
2015	180	24
2016	115	5

Contractual Obligations

The following table is a summary of the Company's contractual obligations as of December 31, 2013, considering undiscounted cash flows of financial liabilities based on the earliest date on which the Company will be required to pay and including both interest and principal cash flows.

(in thousands of US$)	**Less than 1 year**	**1 to 2 years**	**3 to 5 years**	**More than 5 years**	**Total**
Non-current indebtedness with related parties	$ 67,258	$ 2,582	$ 38,754	$ 528	$ 109,134
CEBURES	23,432	46,864	46,864	396,282	513,442
Financial obligations	10,705	(5,330)	5,760	52,778	63,913
Total	**$ 101,395**	**$ 44,116**	**$ 91,378**	**$ 449,600**	**$ 686,489**

In the ordinary course of business, the Company also enters into long-term supply contracts with affiliates that are not reflected in the above table.

Off-Balance Sheet Agreements

As of December 31, 2013, the Company did not have any off-balance sheet agreements.

iii) Internal Control

The Company's Management is responsible for maintaining an internal control system over financial reporting. This system provides the Company's stockholders with a reasonable assurance that our transactions are performed and recorded in accordance with our Management's guidelines and that its financial records are reliable as a basis for preparing the financial statements.

The internal financial reporting control system is supported by ongoing audits, the results of which are reported to Management throughout the year. The Company also maintains reliable databases and has modern and efficient systems designed to generate key financial information in real time. These systems also facilitate the efficient preparation of our financial reports.

To fulfill its responsibilities regarding the integrity of financial reporting, the Company's Management maintains and relies on the internal financial reporting control system. This system is based on a functions segregation chart that assures the selection of competent personnel and contains policies that are provided to all the applicable employees.

The Company's internal financial reporting control system has the following primary goals:

- To issue reliable, timely and meaningful financial information;
- To delegate authority and assign responsibilities for achieving the system's goals and objectives;
- To establish proper business practices within the organization; and
- To establish the correct administrative control methods to help oversee and monitor compliance with the Company's policies and procedures.

The Company has manuals that establish our policies and procedures regarding the implementation and promotion of its businesses, the control and monitoring of transactions involving the acquisition, promotion, distribution or sale of subsidiaries, and the controls in the areas of human resources, finance, accounting, legal, tax and data processing, among others.

e) Critical Accounting Estimates, Provisions or Reserves

Significant Accounting Policies

The Company has identified certain key accounting estimates and assumptions applicable to our financial condition and results of operations, which often involve complex factors and are based on subjective judgments or decisions. As a result, Management is required to make estimates and assumptions that affect the amounts reported in the Company's financial statements. We base our estimates and judgments on past experience, where applicable, and other assumptions that we believe are reasonable under the circumstances.

The following are some of the key assumptions made by Management in the process of applying our accounting policies and that have or may have the most significant effect on the figures reported in our financial statements. Please refer to Note 3 to the Audited Financial Statements, included in this Annual Report.

Finance Lease of Natural Gas Compression Station

The Company has entered into a long-term natural gas compression contract with Pemex Gas. This contract grants Pemex Gas the right to use the 100% of the capacity of the compression station for a period of 20 years, with option to extend for five additional years, in exchange for fixed capacity payments. Please refer to the section *"Description of the business—Main activity - Gas segment— Naco compression station."* Management has determined that this contract must be posted in accounting as a finance lease due to that the current value of the minimum lease payable at the signing date of the contract was practically equivalent to the total fair value of the compression station at that date.

Regulatory Accounting

Many of the natural gas prices and the distribution, storage and transportation fees that the Company charges its customers require the approval from the CRE. The Company is also subject to other regulations and price controls imposed by Mexican governmental and other regulatory bodies. Different with respect to the FRS and U.S. Generally Accepted Accounting Principles, or U.S. GAAP, the IFRS, issued by the IASB do not provide any explicit guidance regarding whether companies that belong to regulated industries should recognize assets and liabilities arising from the effects of rate regulation.

According to the IFRS Interpretations Committee, or IFRSIC, the criteria applicable to the recognition of regulated rates, established by U.S.G.A.A.P. are not consistent with IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its financial statements. Management will continue to monitor the status of future deliberations by the IASB and IFRSIC relating to this matter and their potential impact on the financial reporting.

Contingencies

The Company reports losses for the estimated impact of a series of factors, situations or circumstances involving uncertain outcomes. The Company reports contingent losses:

- Due to events occurred on or before the date of the financial statements;
- When the information available to us through the issue date of the financial statements indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events; and
- When the amount of the loss can be reasonably estimated.

The Company does not report contingent losses that might result in gains.
The Company continuously assesses contingencies related to litigation claims, environmental remediation and other events.

Own Use Exemption

In accordance with International Accounting Standard 39 (IAS 39), "*Financial Instruments: Recognition and measurement",* the contracts relating to the physical delivery of non-financial assets for "own use" are excluded from the accounting treatment as derivatives. The standard also seeks to identify contracts which are not used for operational purposes. If a non-financial item can be settled "net" using cash or another financial instrument, or by the 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. Management takes into account the following factors, among others, in applying judgment to assess whether net settlement is likely:

- Past practices with respect to settlement of similar contracts;
- Past practices with respect to taking delivery and selling the item in the short term; and
- Whether the commodity is readily convertible into cash.

The Company has determined that none of its physical delivery contracts of non-financial items falls within the own-use exemption.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future and other important sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the book values of assets and liabilities presented in the Company's consolidated statements of financial position.

Estimated Useful Lives of Property, Plant and Equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.
No significant changes to the useful lives of property, plant and equipment were identified for the periods presented in the financial statements.

Impairment of Long-Lived Assets (Fixed Assets and Goodwill)

Impairment tests of goodwill and long-lived assets are based on internal and external financial indicators and projections and certain other assumptions. The Company reviews the estimates and assumptions used in such tests based on regularly updated information.

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 that Management estimate the future cash flows expected to arise from the respective cash-generating unit and a suitable discount rate in order to calculate the present value of such cash flows. This impairment testing is performed on an annual basis.

Asset Retirement Obligations

The estimated cost of decommissioning at the end of the useful lives of our long-lived assets is reviewed periodically based on the current estimated value at the date of the consolidated statement of financial position of the present value of future costs to be incurred from the retirement from service as required by law or our contractual obligations. The payment dates of the total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but we currently anticipate them to be between 25-50 years. The Company uses the long-term borrowing cost rate as a discount rate to calculate the provision related to asset retirement obligations. This borrowing cost rate is the 30-year borrowing cost for companies in our industry with similar credit ratings, as reported by Bloomberg.

Valuation of Financial Instruments (Fair Value Measurement)

The Company uses valuation techniques that include inputs based on observable markets to estimate the fair value of certain types of financial instruments.

Purchase Price Allocation of Sempra Gasoductos by Sempra Energy

Purchase price allocation requires most identifiable assets acquired and liabilities assumed or incurred to be measured at fair value. Therefore, in order to set the prices of the assets acquired or the liabilities assumed from Sempra Energy's investment in Sempra Pipelines Mexico, a measurement of the fair value is determined based on the assumptions that market participants would use.

Allowance for Doubtful Accounts

In our natural gas distribution business, the Company has recognized an 80% allowance for doubtful debts against all receivables between 180 and 269 days and a 100% allowance against all receivables over 270 days, based on historical experience.

The Company recognizes allowances for doubtful accounts are recognized against trade receivables for customers with balance aging of between 30 and 179 days and considered irrecoverable based on an analysis of the current financial positions of our customers.

For all of our other businesses, the average aging on trade receivables is 30 days.
Trade receivables include amounts that are past due at the end of the reporting period for which we have not recognized an allowance for doubtful accounts because the amounts are still considered recoverable.

In determining the likelihood of recovering any specific trade receivable, the Company considers any change in the credit quality of the trade receivable in question from the date credit was initially granted up to the end of the reporting period. In our natural gas distribution business, the concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The Company periodically reviews the estimates and assumptions used to determine the amount of the reserve. Although the Company believes that the reserve reported is appropriate, changes in the economic situation could give rise to changes in the reserve and, therefore, could affect the Company's results.

Retirement and Other Long-Term Employee Benefits

For defined benefit retirement plans, such as the pension plans and associated seniority premium benefits granted by the Company, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period.

4. MANAGEMENT

a) External Auditors

The Company's independent auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, whose offices are located in Mexico City. The Company's independent auditors were appointed by Sempra Energy's audit committee, taking into consideration their expertise, service standards and quality.

Galaz, Yamazaki, Ruiz Urquiza, S.C., has served as the Company's external auditor since 1996. In the past three years, they have not issued a qualified opinion or a negative opinion, nor have they refrained from giving an opinion on the Company's financial statements.

The Company's audited financial statements included in this annual report were audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., who and for the audit services corresponding to the 2013 fiscal year, it charged approximately: USD$1.3 million.

b) Related Party Transactions and Conflicts of Interests

The following is a description of transactions since January 1, 2012 to which the Company has been a party, in which the amount involved exceeds USD$120,000 and in which one or more of the Company's directors, members of its senior management or its indirect controlling shareholder, or an affiliate or immediate family member thereof, had, has or will have a direct or indirect significant material interest.

The Company believes the terms obtained or consideration that it paid or received, as applicable, in connection with the transactions described below were comparable to the terms it would have been able to obtain or the amounts it would have paid or received from unaffiliated third parties.

In the ordinary course of its 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 an affiliate thereof.

Intercompany Loan Contracts

Loans from Related Parties (Outstanding as of December 31, 2013)

The Company has revolving credit facilities in place with several affiliates of its indirect controlling shareholder as lenders. The Company has the right to settle in advance the total or any part of the unpaid balance of each of these contracts, without having to pay any conventional penalty whatsoever. The following table shows a summary of the main terms of contracts of this type that are in effect as of December 31, 2013.

Creditor	Credit limit	Unpaid main balance	Interest rate	Maturity date
Sempra Oil Trading	USD$ 100 million	USD$ 38.5 million	3.28% (federal rate for mid-term notes issued by the United States Treasury + 200 base points	March 18, 2017
Sempra Generation	USD$ 12 million	USD$ 0.4 million	2.7% (fixed rate)	December 31, 2027

During 2013, the Company made capital and interest payments for USD$53.2 and USD$1.9 million respectively, to Sempra Oil Trading. In addition, the Company paid interest for USD$3.6 million in 2012. The loans' maturity is March 2017 and they accrue variable interests based on the federal rate for medium-term certificates issued by the United States Treasury, plus 200 base points (average yearly rate of 3.27% and 3.04% in 2013 and 2012, respectively).

During 2013 and 2012 the Company received long-term loans from Sempra Generation for USD$737 million and USD$21 million respectively. During 2013 and 2012 the Company made payments on principal for USD$454 million and USD$587 million, respectively. The loans' maturity is December 31, 2027 and they accrue variable interests based on the federal rate for

medium-term certificates issued by the United States Treasury, plus 200 base points (average yearly rate of 2.7% in 2013 and 2012).

Credits granted by related entities repaid in full as of December 31, 2013

On December 31, 2012, the company received a long-term loan from Sempra Chile for USD$215 million, which accrued interest for USD$0.9 million. The Company repaid this loan and interest in full during 2013. The loan accrued variable interest based on the 6-month LIBOR rate plus 250 bps (average annual rate of 3.006% during 2013).

The Company received loans from Sempra Global for USD$122.0 million during 2012. During 2013, the Company made principal and interest payments for the whole of the loan. During 2012, it made principal and interest payments for USD$125.0 million and USD$0.4 million, respectively. The maturity date of the amounts owed was, December 15, 2027 and they accrued variable interests based on the federal rate for medium-term certificates issued by the United States Treasury (average yearly rate of 0.98% in 2013).

Loans Granted to Related Parties

Since January 1, 2012 the Company has granted the following loans to affiliates of its controlling corporation:

- In June 2011, the Company established a line of credit denominated in Pesos, which accrues interest at a variable rate based on the 28-day TIIE plus 178 pbs in favor of Sempra Servicios México. This line of credit has a limit of MXN$10.0 million and its maturity was January 30, 2013. The highest unpaid balance (including principal and interest) owed the Company in relation to this line of credit since its opening date and to December 31, 2012 was MXN$ 7.3 million. During this time the Company received payments for principal for a total MXN$ 3.7 million and interest for MXN$ 0.4 million related to this loan.

- During 2012, the Company granted loans to Sempra Servicios México for USD$412 million, with maturity on January 31, 2013, and they accrued interest at a variable interest rate based on the TIIE in Mexico, plus 178 pbs (an average of 6.57% during 2013).

There are no loans granted to key management personnel of the Company.

Guarantees and Letters of Credit

Sempra Energy, the Company's indirect controlling stockholder, has granted guarantees (including loan guarantees and letters of credit issued by third parties with charge to Sempra Energy's accounts) with respect to certain contract obligations of the latter's subsidiaries, including the following:

Debtor	Beneficiary of the guarantee/ letter of credit	Contract guaranteed	Maximum amount guarantee/letter of credit
Termoeléctrica de Mexicali	JPM Ventures Energy	Assignment of base natural gas sale and purchase contract contract, dated April 15, 2011	Guarantee for USD$40 million
Termoeléctrica de Mexicali	Gasoducto Rosarito	Firm base transportation contract, dated February 26, 2002	Guarantee for USD$29.4 million
LNG Marketing	JPM Ventures Energy	Assignment of firm base sale and purchase of natural gas contract, dated April 15, 2011	Guarantee for USD$100 million
LNG Marketing	Gasoducto Rosarito	Firm base transportation contract, dated December 18, 2009	Guarantee for USD$3.9 million
LNG Marketing	Gasoducto Rosarito	Firm base transportation contract, dated May 1, 2008	Guarantee for USD$59.6 million
LNG Marketing	Gasoducto Rosarito	Firm base transportation contract, dated February 15, 2002	Guarantee for USD$62.3 million
LNG Marketing	TGN	Firm base transportation contract, dated May 1, 2008	Guarantee for USD$45.6 million
LNG Marketing	Energía Costa Azul	Firm base storage service contract, dated November 29, 2004	Guarantee for USD$282 million
Energía Costa Azul	Shell	Firm base storage service contract, dated April 17, 2009	Unlimited guarantee
Energía Costa Azul	Gazprom	Firm base storage service contract, dated April 17, 2009	Unlimited guarantee
IEnova	Royal Bank of Scotland plc	Interest rate swap contract, dated September 16, 2005	Unlimited guarantee
Energía Sierra Juárez	Ejido Cordillera Molina	Lease contract, dated June 10, 2007	Guarantee for USD$5 million
IEnova	CFE	Letter of credit issued by Santander México in favor of the CFE, dated October 31, 2012	Guarantee for USD$85 million
Gasoducto Rosarito	InterGen	Firm base storage service contract, dated February 8, 2002	Guarantee for USD$5 million
N/A	Travelers Casualty and Surety Co. of America	Performance bond issued by Travelers Casualty and Surety Co. of America, in favor of the Government of Mexico, in relation to the construction of the LNG Terminal.	Letter of credit for USD$3.2 million
LNG Marketing	CFE	Letter of credit issued by Banamex, in relation to the power supply contract, dated January 21,2001	Letter of credit for USD$85 million
Aguaprieta Pipeline	Stupp Corporation	Pipe supply contract, dated November 20, 2012	USD$155.3 million
Aguaprieta Pipeline	Procarsa	Supply contract, dated February 1, 2013	USD$28.6 million

Energía Sierra Juárez guarantees the contractual obligations of Energía Sierra Juarez U.S. to SDG&E.

Energía Sierra Juarez U.S. is the United States entity through which the Company expects to sell electricity to SDG&E. There is no limit on this guarantee, which continues for the life of the power purchase contract it supports.

Electricity Sale and Purchase Contracts

In January 2013, the Company executed an electricity management services contract with Sempra Generation. Pursuant to this contract, in effect since January 1, 2012, Sempra Generation acts as the Company's agent for marketing and scheduling the power sales of the latter, and additionally, it provides it support in certain administrative, operational and coverage functions and regulatory matters in the United States. Pursuant to the new electricity management services contract with Sempra Generation, the Company pays Sempra Generation an annual commission that will depend on the service levels provided to the Termoeléctrica de Mexicali power plant (amongst others, scheduled or marketed delivery volumes by Sempra Generation), and it is bound to reimburse Sempra Generation for the expenses incurred by it related to said services. The contract expires in 2017. In 2013 and 2012, the Company paid Sempra Generation USD$ 1.8 million and USD$ 16.9 million under this new contract. This contract substituted the contract that the Company had executed previously with Sempra Generation for the full electricity output of the Termoeléctrica de Mexicali power plant, or approximately 625 MW. Under this contract Sempra Generation reimbursed the Company for the cost of the natural gas required for electricity generation at the power plant, as well as for any additional costs incurred by the Company related to the procurement of natural gas. In 2010 and 2011 the total amount received from Sempra Generation pursuant to the above contract was approximately USD$152.6 million and USD$178.8 million respectively.

Natural Gas Sale and Purchase Contracts

In 2009, the Company entered into several contracts with RBS Sempra Energy Trading México, an affiliate of the Company's indirect controlling shareholder, pursuant to which the LNG business supplied RBS Sempra Energy Trading México with natural gas and RBS Sempra Energy Trading México sold natural gas to the energy segment of the Company for its use at the Termoeléctrica de Mexicali power plant. The costs of the natural gas purchased for use at Termoeléctrica de Mexicali were reimbursed by Sempra Generation. RBS Sempra Energy Trading México also acted as scheduling agent to coordinate the delivery of natural gas under the Company's contract with the CFE.

In September 2011, RBS Sempra Energy Trading México assigned its obligations under these contracts to JPM Ventures Energy. Under this contract, which expires in September 2014, the Company is obliged to purchase, and JPM Ventures Energy is obliged to supply a daily base load volume not less than the minimum amount (70,000 MMBtu/day) nor larger than the maximum amount (105,000 MMBtu/day). The operations derived from this contract were approximately USD$92.6 and USD$75.8 million during 2013 and 2012 respectively.

The Company entered into an organization contract with Sempra Generation, an affiliate of the Company's indirect controlling stockholder in January 2013, which effective in September 2014. Pursuant to this contract, Sempra Generation will provide scheduling and coordination services related to the delivery of natural gas to its customers, including the CFE and the Termoeléctrica de Mexicali power plant. These scheduling and coordination services will substitute, at similar prices, those services rendered pursuant to the contract with JPM Ventures Energy, which expires in September, 2014. The contract with Sempra Generation expires in December, 2022.

Transportation Services and Pipeline Improvement Contracts

The Company has a Firm base transportation contract with Southern California Gas Company -an affiliate of the Company's indirect controlling stockholder- whereby Southern California Gas Company transports natural gas for the Company's distribution business from the United States to a US-Mexico border crossing point close to Mexicali. For these services, the Company pays the rates files before the California Public Utilities Commission. Pursuant to this contract, the Company performed operations for approximately USD$1.4 million and USD$1.1 million, during the years ended December 31 2013 and 2012 respectively, for transportation services rendered by Southern California Gas Company.

The Company has entered into several natural gas transportation contracts on an interruptible basis on the Gasoducto Rosarito and TGN, with Southern California Gas Company. These contracts are renewed monthly and any of the parties to a certain contract may terminate it by prior notice 30 days in advance to the other party.

Main Terms of the Natural Gas Transportation Services Contracts

Customer	Carrier	Amount	Contracted rate(1)
Southern California Gas Company	Gasoducto Rosarito	200,000 Dth/d	MXN$ 1.4083 Dth
Southern California Gas Company	Gasoducto Rosarito	150,000 Dth/d	USD$ 0.2280 Dth
Southern California Gas Company	Gasoducto Rosarito	200,000 Dth/d	MXN$ 0.8429 Dth
Southern California Gas Company	Gasoducto Rosarito	150,000 Dth/d	USD$ 0.2673 Dth

(1) The rate agreed for each case is subject to fluctuation, pursuant to the applicable legal provisions.

In 2013 and 2012, the Company performed operations for approximately USD$0.1 million and USD$0.2 million, as compensation for the transportation services rendered to Southern California Gas Company, pursuant to these contracts.

Natural Gas Sale and Purchase Contract with Sempra Natural Gas

Since 2009, LNG Marketing has purchased LNG from Sempra Natural Gas pursuant to a sale and purchase contract for up to 8.2 million cubic meters (1,880 mth) of LNG a year. In the case that Sempra Natural Gas delivers to LNG Marketing less than this amount, except for reasons of *force majeure*, it was obliged to compensate the latter for the costs related to the fixed capacity contracted by LNG Marketing with the LNG Terminal and the pipeline business.

During 2013 and 2012, LNG Marketing performed LNG purchase operations from Sempra Natural Gas for approximately USD$224.2 million and USD$195.6 million, respectively, pursuant to this contract, and Sempra Natural Gas paid LNG Marketing approximately USD$90.8 million and USD$107.8 million, respectively.

In January 2013, the Company terminated the contract under which it purchased LNG from Sempra Natural Gas and replaced it with a new long-term LNG sale and purchase contract with Sempra Natural Gas. While the material terms of the new contract are substantially similar to those of the prior contract, it does differ in two significant respects. First, the new contract provides that Sempra Natural Gas will make a limited number of LNG shipments available to the Company for purchase with the express purpose of maintaining a sufficient volume of LNG such that the terminal LNG can remain in operation continuously. Second, the new contract corrected certain non-intentional economic consequences for the Company that resulted in excessively high payments to the Company by Sempra Natural Gas because the number of shipments delivered under the previous contract was substantially lower than what had been expected before the signing of the previous contract. This new LNG sales and purchase contract with Sempra Natural Gas expires in August, 2029. If the new contract had been entered upon in January 2012, the adjusted EBITDA for 2012 would not have been significantly different. This new LNG sales and purchase contract with Sempra Natural Gas expires in August, 2029.

Amended and Restated LNG Sale and Purchase Contract with the Tangguh Partners

Sempra Natural Gas, purchases LNG from various suppliers, including pursuant to a long- term contract with the Tangguh Project partners (a consortium of companies that produce LNG 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 shipments annually to other purchasers. Having non-divertible shipments available under the contract between Sempra Natural Gas and the Tangguh Project partners increases the likelihood that the LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that it will be able to satisfy at least some portion of its natural gas customer commitments by selling regasified natural gas to its customers. The contract between Sempra Natural Gas and the Tangguh Project partners expires in 2029. The Company is a party to this contract only in what respects to the scheduling of the deliveries of the LNG shipments and coordinating the use of its marine terminal by the other parties.

Natural Gas Sale and purchase Contract

The Company executed a natural gas sale and purchase contract with EDF Trading North America LLC, effective on February 1, 2013 and expiration on January 31, 2014, for an amount of 12,000 MMBtu/day.

Natural Gas Sale and Purchase Contract with Sempra Natural Gas

Pursuant to this contract, the Company purchases natural gas from Sempra Natural Gas in order that LNG Marketing may have the necessary amounts of regasified LNG to meet the natural gas delivery obligations to meet its supply obligations to its other customers in the event LNG Marketing does not have sufficient regasified LNG to meet those obligations. The rate paid by the Company to Sempra Natural Gas for this supply is such that it is economically irrelevant to the Company if it purchases this gas in the market or buys LNG from Sempra Natural Gas. During the years ended on December 31 2011, 2012 and 2013, pursuant to this contract, the Company paid Sempra Natural Gas approximately USD$571.1 million, USD$216.8 million and USD$224.2 million, respectively.

In January 2013, the Company entered into a contract with Sempra Natural Gas which will replace the previous Natural Gas Sale and Purchase Contract with Sempra Natural Gas, and which will become effective on September 1, 2014. This new contract, which will expire on December 31, 2022, provides that the rate the Company will pay for natural gas will be equal to the then-current market rates plus a markup of 1%.

Service Contracts

In the course of its normal operations, the Company enters into several service contracts with several affiliates of its indirect controlling stockholder, including financial, marketing, commercialization, regulatory, engineering, and technical and information system services. In general terms, these contracts stipulate payment of a consideration equivalent to the expenses incurred by the respective service renderer, plus a 5% to 7.5% markup. Any of the parties in a contract may terminate upon a 30-day notice to the other party. Following is a summary of these transactions:

- Sempra Servicios México provides services to the Company's gas and power segments, including administrative and operational services, and it covers other services related to the operation of the Company's corporate offices in Mexico. During 2013, 2012 and 2011, the Company paid Sempra Servicios México approximately USD$0.7 million, USD$1.4 million and USD$1.5 million, respectively, for these services.

- Sempra Services Company provides various administrative services to the Company's gas and power segments. During 2013, 2012 and 2011, the Company paid Sempra Services Company approximately USD$1.7 million, USD$1.6 million and USD$1.8 million, respectively, for these services.

- Sempra Pipelines and Storage provides services to the Company's gas and power segments, including administrative services, operational services and technical services relating to asset maintenance and project development. During 2012 and 2011, the Company paid Sempra Pipelines and Storage approximately USD$(0.1) million and USD$3.0 million, respectively, for these services

- Sempra LNG Corporation provides various services to the Company's gas segment, including administrative services. During 2012 and 2011, the Company paid Sempra LNG Corporation approximately USD$5.2 million and USD$5.4 million, respectively, for these services.

- Sempra Global provides general administrative services to the Company's corporate segment. During 2013, 2012 and 2011, the Company paid Sempra Global approximately USD$0.01 million, USD$0.4 million and USD$0.2 million, respectively, for these services.

In January 2013, the Company entered into an Information Technology Services Contract with Sempra U.S. Gas & Power, an affiliate of its indirect controlling stockholder. Pursuant to this contract Sempra U.S. Gas & Power will continue to provide the Company with certain software and information technology services that had been provided to it historically by affiliates of the Company's indirect controlling stockholder, including software, support, and security services. Pursuant to this contract, the Company expects to pay Sempra U.S. Gas & Power approximately USD$7.0 million. This contract has an initial term of five years.

In February 2013, the Company entered into a Management, Technical and Advisory Services Contract with Sempra International, an affiliate of its indirect controlling stockholder, pursuant to which Sempra International (directly or through affiliates) will provide the company with certain support services. The Company expects to pay approximately USD$8.0 million per year for these services.

Gas Control and Monitoring Contracts

The Company has entered into several gas send-outs and transportation services contracts with Sempra Midstream, an affiliate of the Company's indirect controlling stockholder. Pursuant to these contracts, Sempra Midstream provides the Company monitoring and gas control services, using electronic monitoring and control systems owned by the Company, in order to optimize its pipeline capacities and operations and enable it to respond in a timely manner to operational events or emergencies affecting the Gasoducto Rosarito, the TGN, the Aguaprieta Pipeline and the Naco compression station. The contracts were entered into on January 1, 2011 and have a term of 10 years. Sempra Midstream may terminate these contracts if the Company and Sempra Midstream cease to be under the common control of their indirect controlling stockholder. During the years ended December 31, 2013 and 2012 the Company had operations with Sempra Midstream for approximately USD$0.5 million and USD$0.5 million, respectively, as consideration for the gas control services rendered by Sempra Midstream. 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 stockholder and its affiliates pay the Company fees for certain administrative services and for the use of its facilities. During 2013, 2012 and 2011, the Company had revenues for a total of approximately USD$1.7 million, USD$1.7 million and USD$1.8 million, respectively, as a result of these transactions.

The Company provides administrative services to Sempra Pipelines & Storage. During 2012, this contract provided revenue for approximately USD$0.2 million. The revenue related to this contract received by the Company in 2011 was less than USD$0.12 million.

Sempra Generation provides the Company with project development and other administrative services related to the development of the Energía Sierra Juárez wind generation project in the Sierra de Juárez mountain range in Baja California. During the years ended on December 31, 2012 and 2011 the Company paid Sempra Generation for these services approximately USD$0.2 million, and USD$0.8 million, respectively.

Sempra International provides the Company with professional services pursuant to various contracts with its subsidiaries. During the years ended on December 31, 2013 and 2012 the Company paid Sempra Generation for these services approximately USD$7.4 million and USD$6.2 million, respectively.

c) Management and Stockholders

Board of Directors

The Company's board of directors currently consists of 9 members and is responsible for the management of its business. Each director is appointed for a term of one year, but may be re-elected and in any case must remain in office until a successor has been appointed and has assumed office. Further, such members may be reelected and removed from office at any time by a decision of the stockholders at a general stockholders' meeting. The members of the board of directors are elected by the stockholders. The board of directors meets at least once quarterly, and can hold extraordinarily meetings if it deems it necessary.

Pursuant to law, at least 25% of the members of the board of directors must be independent; as such term is defined in the LMV. 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 by unanimous stockholders' resolutions on March 6, 2013. The composition and authority of the Board of Directors and committee members are contained in the amended and restated bylaws that were approved by unanimous stockholders' resolutions at a Company's general extraordinary stockholders' meeting on March 6, 2013.

The following table sets forth certain information regarding the current members of the Company's senior management as of March 6, 2013.

Name	Age	Title	Initial appointment date
Carlos Ruiz Sacristán	64	Chairman	July 2012
Andrés Conesa Labastida	44	Member*	March 2013
Jeffrey S. Davidow	70	Member*	March 2013
Aaron Dychter Poltolarek	61	Member*	March 2013
Joseph A. Householder	58	Member	March 2013
Arturo Infanzón Favela	42	Member	December 2012
James H. Lambright	43	Member	March 2013
George S. Liparidis	55	Member	June 2012
L. Eduardo Pawluszek	51	Member	December 2012
Mark A. Snell	57	Member	June 2012
Randall L. Clark	44	Secretary, Non-member	November 2010
René Buentello Carbonell	45	Alternate Secretary, Non-member	June, 2012
Rodrigo Cortina Cortina	45	Alternate Secretary, Non-member	June 2012

* Independent directors pursuant to the LMV.

The following is a summary of the experience and main business interests of the current members of the Company's board of directors.

Carlos Ruiz Sacristán. Carlos Ruiz is the Company's Chief Executive Officer and Chairman of the Board of Directors. Prior to his joining the Company, from 2007 to his appointment as Chairman of the Board of Directors of the Company in June, 2012, Carlos Ruiz Sacristán was a member of the Board of Directors of Sempra Energy. Since June, 2012, Carlos Ruiz Sacristán has been in charge of handling all the transactions of Sempra Energy in Mexico. Carlos Ruiz Sacristán is a partner in the consulting firm that provides advisory in infrastructure subjects and investment banking called Proyectos Estratégicos Integrales, S.C. Mr. Ruiz currently serves on the boards of directors of Southern Copper Corp., OHL Concesiones México, S.A. de C.V, Banco Ve por Más, S.A. de C.V., Grupo Creatica, S.A. de C.V., Grupo de Autopistas Nacionales, S.A. (GANA), Administradora Mexiquense del Aeropuerto Internacional de Toluca, S.A. de C.V., and on the development board of Anahuac University. These corporations have no commercial relationship with Sempra Energy, the Company, or any of its affiliates. Prior to joining Proyectos Estratégicos Integrales, S.C. in 2001, Mr. Ruiz served as Mexico's Secretary of Communications and Transportation during the administration of Dr. Ernesto Zedillo Ponce de León from 1994 to 2000. During this time he oversaw the restructuring of the country's communications and transportation sectors to increase investment, broaden competition and improve the country's infrastructure. Previously he served in several posts at the Central Bank (Banco de Mexico) from 1974 to 1988, the Finance Ministry from 1988 to 1992, and at Petróleos Mexicanos in 1994. Mr. Ruiz holds a Bachelor's Degree in Business

Administration from Anahuac University in Mexico City and a Master's Degree in Business Administration from Northwestern University in Chicago.

Andrés Conesa Labastida. Dr. Andrés Conesa Labastida has been the Chief Executive Officer of Aeroméxico since 2005. Dr. Conesa has held several positions in the Mexican Public Administration, including as Advisor to the Secretary of the Economic Cabinet of the Presidency from 1991 to 1993, as Chief Advisor to the Undersecretary of Finance and Public Credit from 1997 to 1998, and as Director General for International Financial Affairs in the Ministry of Finance from 1998 to 2000. Dr. Conesa served as General Director of Economic Policy at the Mexican Ministry of Finance from 2000 to 2003 and as Deputy Undersecretary for Public Credit from 2003 to 2004, when he was appointed Chairman of the Board of CINTRA, the holding company of Aeroméxico and Mexicana. He has been a member of the Board of Governors of the International Air Transport Association since 2008. Dr. Conesa obtained his Bachelor of Arts in Economics from the Instituto Tecnológico Autónomo de México and his Ph.D. in Economics from the Massachusetts Institute of Technology. He was awarded Fulbright and Ford-MacArthur scholarships, and in 1997 he was the recipient of the National Prize in Economic Research.

Jeffrey Davidow. Jeffrey Davidow has extensive diplomatic experience both in Latin America and in 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. Since leaving the Foreign Service, Ambassador Davidow served for eight years as President of the Institute of the Americas in San Diego, a public policies organism focused on Latin America. He is currently Senior Advisor for the Cohen Group, an international consulting firm based in Washington, D.C. Ambassador Davidow has published articles on 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 on Integration, the Trilateral Commission, the Woodrow Wilson Center, the Pacific Council, the Chinese Academy of Social Sciences and the Inter-American 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.

*Aaron Dychter Poltolarek***.** Dr. Aaron Dychter is the President and Founder of ADHOC Consultores Asociados, S.C., which provides consulting services in infrastructure, transportation and energy investment projects. From December 1994 to December 2006, Dr. Dychter was Undersecretary of Transportation in the Communications and Transportation Ministry, in which capacity he led the privatization processes for railways and airports in Mexico, as well as the creation of the first suburban train system for Mexico City. Previously, he worked in the Finance Ministry, the Programming and Budget Ministry and the Energy Ministry. Dr. Dychter serves on the board of directors of Grupo Aeroportuario del Centro Norte and Empresas ICA, and was previously on the board of directors of Grupo Aeroportuario del Sureste, Grupo Aeroportuario Centro Norte, Grupo Aeroportuario del Pacifico and Grupo Aeroportuario de la Ciudad de Mexico. Dr. Dychter is a graduate of the University of the Americas and holds a Master's Degree and a Ph.D. in Economics from George Washington University.

Joseph A. Householder. Joseph A. Householder is Executive Vice President and Chief Financial Officer of Sempra Energy. From 2006 to 2011, Mr. Householder was Senior Vice President, Controller and Chief Accounting Officer of Sempra Energy, in which capacity he was responsible for financial reporting, accounting and controls, and tax functions for Sempra Energy and all its companies. Before that, he served as Vice President of Corporate Tax and Chief Tax Counsel for Sempra Energy, where he oversaw Sempra Energy's worldwide tax affairs. Prior to joining Sempra Energy in 2001, Mr. Householder was a partner at PricewaterhouseCoopers in the firm's national tax office. From 1986 to 1999, he served in a number of legal and financial roles at Unocal, including ultimately as Vice President of Corporate Development and Assistant Chief Financial Officer, where he was responsible for worldwide tax planning, financial reporting and forecasting, and mergers and acquisitions. Mr. Householder currently serves on the board of directors of Pacific Enterprises Inc., Southern California Gas Company, EnergySouth Inc., the San Diego Regional Economic Development Corporation, and San Diego Gas & Electric Company, and is a member of the Tax Executives Institute, the American Institute of Certified Public Accountants, the California Bar and the American Bar Association. He holds a law degree from Loyola Law School and a Bachelor's Degree in Business Administration from the University of Southern California.

Arturo Infanzón Favela. Arturo Infanzón is a Member of the Board of Directors of the Company. Arturo Infanzón Favela has been the corporation's Executive Vice President, Chief Operating and Financial Officer since January 2012. Previously, Mr. Infanzón was Vice President for Mexico and Director of Operations of Sempra International. Mr. Infanzón also served as Controller of Operations in Mexico and General Manager of ECOGAS, S. de R.L. de C.V. Prior to joining Sempra Energy in 1997, Arturo Infanzón Favela worked at Price Waterhouse and the First National Bank. Mr. Infanzón currently serves on the board of directors of Chilquinta Energía, S.A. and Luz del Sur, S.A.A., companies controlled by Sempra Energy. He holds a Bachelor's Degree in Accounting from Universidad Autónoma de Baja California in Mexico and a Master's Degree in Finance from San Diego State University.

James H. Lambright. James H. Lambright is Senior Vice President of Corporate Development for Sempra Energy. In that position, Mr. Lambright directs Sempra Energy's investments, strategic partnerships and acquisitions. Mr. Lambright's earlier leadership roles include four years as Chairman and Chief Executive Officer of the United States Export-Import Bank, an independent government corporation based in Washington, D.C. which is responsible for financing U.S. exports to more than 150 countries. During the financial crisis of 2008 to 2009, Mr. Lambright served as Chief Investment Officer of the U.S. Treasury Department's $700 billion Troubled Asset Relief Program (TARP). He has also worked as a vice president in private equity and served on the board of directors of renewable energy companies. Mr. Lambright graduated with honors from Harvard Law School and with distinction from Stanford University. He is a Henry Crown Fellow of the Aspen Institute and currently serves on the board of Peace Players International, a Washington, D.C.-based nonprofit organization.

George S. Liparidis. George S. Liparidis is a Member of the Board of Directors of the Company and President and Chief Executive Officer of Sempra International, a corporation that develops, builds and operates energy infrastructure assets and distributes electricity and natural gas to customers in Mexico, Chile and Peru. Sempra International also operates LNG receiving facilities in the United States and Mexico. Sempra International is a subsidiary of Sempra Energy. Prior to his appointment to his current position with Sempra International, Mr. Liparidis was President and Chief Executive Officer of Sempra Pipelines & Storage. Before joining Sempra Energy, Mr. Liparidis was Vice President of Enova International, the international subsidiary of Enova Corporation. Enova Corporation merged with Pacific Enterprises to form Sempra Energy in 1998. In this position, he was responsible for business development and operations in Mexico. Before that, Mr. Liparidis served as project manager for San Diego Gas & Electric Company, another Enova Corporation subsidiary, from 1992 to 1996. Prior to San Diego Gas & Electric Company, he worked for Energy America, an independent power producer, as director of Financial Analysis and Planning. Mr. Liparidis currently serves on the board of directors of Chilquinta Energía, S.A., and Luz del Sur, S.A.A., companies controlled by Sempra Energy, and on the board of the Institute of the Americas and Council of the Americas. Mr. Liparidis has a Bachelor's Degree in Mechanical Engineering from the University of Utah and a Master's Degree in Business Administration from San Diego State University.

L. Eduardo Pawluszek. Eduardo Pawluszek is a Member of the Board of Directors of the Company, and has been the Vice President of South American Operations for Sempra International since 2011, where he is responsible for the operations of Chilquinta Energía, S.A. in Chile and Luz del Sur, S.A.A. in Peru and their respective subsidiaries. Prior to that position, Mr. Pawluszek served in various positions at AEI Houston, including as Executive Vice President and Chief Financial Officer of AEI's Argentinian subsidiaries Emgasud and EDEN. Mr. Pawluszek has been a member of the board of directors of leading energy companies in Peru, Chile, Colombia and Argentina. He served as Director of Finance at TGS, where for several years he was responsible for financial management and investor relations. Mr. Pawluszek worked for the Royal Bank of Canada in corporate client business development areas in Argentina and Chile. Mr. Pawluszek currently serves on the board of directors of Chilquinta Energía, S.A. and Luz del Sur, S.A.A., companies controlled by Sempra Energy, and he previously served on the board of directors of Emgasud and EDEN. He holds a Bachelor's Degree in Public Accounting from Universidad de Buenos Aires and a Master's Degree in Finance and Capital Markets from Escuela Superior de Economía y Administración de Empresas.

Mark A. Snell. Mark A. Snell is a Member of the Board of Directors of the Company and President of Sempra Energy. In that position, Mr. Snell oversees the company's non-California utilities, infrastructure and international businesses. From 2005 to 2011, Mark Snell as Executive Vice President and Chief Financial Officer of Sempra Energy, and prior to 2005 he served as Chairman of the Board of Directors of Sempra Global. In that position, Mr. Snell oversaw all aspects of Sempra Global in competitive energy markets, including energy trading, electric generation, liquefied natural gas, pipelines and storage facilities, international utilities and retail energy marketing. Prior to serving as Group President, Mr. Snell was Chief Financial Officer of Sempra Global, and before that, he served as Vice President of Planning and Development for Sempra Energy. Before joining Sempra Energy in 2001, Mr. Snell served as Executive Vice President and Chief Financial Officer for Earth Tech, a Long Beach, California-based water management, engineering and environmental services firm. Prior to that, Mr. Snell was Executive Vice President and Chief Financial Officer at Dames and Moore, an NYSE-listed engineering and construction firm headquartered in Los Angeles. Mr. Snell also served as Chief Financial and Administrative Officer for Latham & Watkins, a law firm with more than 1,600 partners and employees worldwide. He also served as Executive Vice President and Chief Financial Officer of World Oil Corp., a privately held, integrated oil company. As a senior manager at the Los Angeles office of KPMG Peat Marwick, Mr. Snell supervised activities that supported acquisitions by client companies. He holds a Bachelor's Degree in Accounting from San Diego State University and is a Certified Public Accountant.

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 stockholders.

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 election and removal of the chief executive officer and other relevant senior managers, as well as to determine their functions and compensation; (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) contracting external auditors;
- call stockholders' 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 stockholders or the Company's Board of Directors;
- submit the Chief Executive Officer's annual report to the general stockholders' 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;
- approve the policies related to disclosure of information;
- determine the measures to be adopted in the case 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. The Chairman of the Board of Directors has a tie-breaking vote. Notwithstanding the above, at any time the stockholders, pursuant to decisions validly taken at a stockholders' meeting, and 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 of the Board of Directors.

The LMV imposes a duty of diligence and loyalty on the directors. The members of the board and, if applicable, the secretary of the Board of Directors must abstain from participating and voting during meetings in which any matter in which they might have any 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 of 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 parts of the Company's transactions.

Audit Committee

The LMV requires issuers to have an audit committee, which must be comprised of at least three independent members appointed by the Board of Directors.

The Company's audit committee was created by a resolution taken in a stockholders' meeting held on March 6, 2013. The current audit committee members are Aaron Dychter Poltolarek, Andrés Conesa Labastida and Jeffrey S. Davidow, who were named by unanimous stockholders resolutions on March 6, 2013. The Company considers all the members of its audit committee are independent and are experts in the terms of the LMV.

The audit committee has the power, among other matters to:

- submit recommendations to the Board of Directors with respect to the hiring or removal of external auditors;
- supervise the external auditors' work and 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 about the operations and activities in which the Board of Directors has participated, pursuant to the LMV;
- report to the Board of Directors the irregularities it may detect;
- receive and analyze proposals and observations made by stockholders, 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 executed with related parties comply with applicable laws;
- oversee the execution by the Chief Executive Officer of resolutions taken by the stockholders meetings or the Board of Directors in accordance with the instructions issued by each of these organs; 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 in its case, any deviations and deficiencies thereof, as well as the 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 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 stockholders, 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 compliance of resolutions taken at stockholders' and the Board of Director's meetings; (8) observations with respect to the performance of relevant directors and officers; and (9) the compensations paid to relevant directors and senior managers.

Corporate Practices Committee

The current members of the Corporate Practices Committee are Jeffrey S. Davidow, Aaron Dychter Poltolarek, Andrés Conesa Labastida and Arturo Infanzón Favela, who were appointed to their positions for an indefinite term on March 6, 2013. In accordance with the provisions of the LMV, the majority of the members of the Corporate Practices Committee are independent because the Company's indirect controlling stockholder, owns at least 50% of the Company's capital stock. Jeffrey S. Davidow, Aaron Dychter Poltolarek and Andrés Conesa Labastida 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's has the power, among other things, to:

- provide opinions and recommendations to the Board of Directors;
- provide assistance to our board of directors in the preparation of reports about the main accounting and information guidelines used in the preparation of financial information;
- advise the board of directors on the election of the Chief Executive Officer and other relevant senior managers, as well as to determine their attributions and compensation;

- advise the board of directors on the preparation of reports for the annual stockholders' meeting;
- request and obtain opinions and recommendations from independent experts;
- provide opinions with respect to transactions with related parties; and
- call stockholders' meetings.

The chairman of the Corporate Practices Committee has the responsibility of preparing an annual report to the Board of Directors with respect to: (1) observations regarding the performance of relevant senior managers; (2) transactions executed with related parties, describing the main characteristics of significant transactions, (3) the compensation paid to relevant advisors and members of the senior management; and (4) waivers granted to advisors or members of the senior management to take advantage of business opportunities.

Senior Management

The following table contains certain information regarding the current members of the Company's senior management:

Name	Age	Position
Carlos Ruiz Sacristán	64	Chief Executive Officer and Chairman of the Board of Directors
Arturo Infanzón Favela	42	Executive Vice President, Chief Operating and Financial Officer
Gerardo de Santiago Tona	42	Executive Vice President of Operations and Construction
Carlos Barajas Sandoval	46	Vice President of Operations
René Bueno Carbonell	45	Vice President General Counsel
Jesus Cordoba Dominguez	53	Vice President of Engineering and Construction
Manuela Molina Peralta	41	Vice President of Finance
Tania Ortíz Mena López Negrete	43	Vice President of External Affairs and Business Development
Carlos Zepeda Briones	41	Vice President of Human Resources and Management
Roberto Rubio Macías	41	Comptroller

Following is a summary of the experience and main occupations of the relevant senior management members.

Carlos Ruiz Sacristán. See the "Management and Stockholders –Board of Directors" section.

Arturo Infanzón Favela. See the "Management and Stockholders –Board of Directors" section.

Gerardo de Santiago Tona. Gerardo de Santiago has been the Company's Executive Vice President of Operations and Construction since May 2010. Previously, Gerardo de Santiago was Manager of Sempra Pipelines & Storage México from 2008 to 2010, which became part of Sempra International in January, 2012. Mr. de Santiago served as Chief Executive Officer of ECOGAS, S. de R.L. from 2001 to 2008. Before joining Sempra Energy in 2001, Mr. de Santiago worked for the Municipal Water System of Saltillo from 1997 to 2000 and for the CFE from 1992 to 1997. Mr. 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.

Carlos Barajas Sandoval. Since February 2014, Carlos Barajas has been the Company's Vice President of Operations. Previously, from June 2013, Mr. Barajas was the Company's Vice President for Gas. Before joining the Company, Carlos Barajas was 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 Méxco 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, 1992, a master's degree in Engineering from the University of British Columbia, 2000, and a master's degree in Economics by Universidad Anáhuac, 2007.

René Buentello Carbonell. Rene Buentello has been the Company's General Counsel since 2010, and has been Vice President and General Counsel since 2014. Previously, René Buentello served as Business Development Director at El Paso Corporation in Mexico from 2008 to 2010. Mr. Buentello began his corporate lawyer career at the industrial division of Grupo Carso, where he was he was Legal Manager at Grupo Nacobre and Grupo Aluminio as Alternate Secretary and Secretary, respectively, of the Board of Directors of those corporations from 1990 to 2002, and later he joined PEMEX, where he served in various positions in the transportation and logistical areas, developing infrastructure projects and promoting public-private partnerships in the areas allowed by the legal framework from 2002 to 2008. Mr. Buentello holds a law degree and graduate degrees in Economic and Corporate Law and in Commercial and Finance Law, all from the Universidad Panamericana.

Jesus Cordoba Dominguez. Since 2012, Jesus Cordoba has been the Company's Vice President of Engineering and Construction. From 2010 to 2012 he acted as Director of Transportation Operations. Previously, Jesus Cordoba acted as Project Manager for subsidiaries of El Paso Corporation in Mexico from 2001 to 2010 and as Superintendent with TransCanada Pipelines in Mexico from 1998 to 2001. Jesus Cordoba has 33 years of experience in project execution infrastructure, including 18 years of experience in project management in the construction industry in Mexico. Jesus Cordoba is a graduate of Civil Engineering from the Universidad La Salle, specializing in project management.

Manuela Molina Peralta. Manuela ("Nelly") Molina has been the Company's Vice President of Finance since July 2010. Previously she served as Vice President of Finance at El Paso Corporation in Mexico from 2001 to 2010. Before working at El Paso Corporation (Mexico), Ms. Molina was General Manager of Kinder Morgan (Mexico), the first distributor of natural gas in Hermosillo, Sonora, from 1997 to 2001. Ms. Molina holds a Bachelor's Degree in Accounting from the Universidad de Sonora in 1995 and a Master's Degree in Finance from the Instituto Tecnológico de Estudios Superiores de Monterrey. Currently Ms. Molina serves as member of the National Executive Council of the Mexican Institute of Finance Executives *(Instituto Mexicano de Ejecutivos de Finanzas)*, she was President for the Mexico City Chapter during 2013 and she is also a board member and founder of NatGas Querétaro, S.A.P.I. de C.V.

Tania Ortíz Mena López Negrete. Tania Ortíz Mena has been the Company's Vice President of External Affairs and Business Development since September 2012. Previously she served as the Company's 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. Ortíz Mena worked at PMI Comercio Internacional, a subsidiary of PEMEX, as Assistant Commercial and Refined Products Manager from 1994 to 1999. Tania Ortíz 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 Ortíz Mena currently serves as member of the Mexican Council for International Affairs, she is vice president of the Mexican Natural Gas Association (Asociación Mexicana de Gas Natural, A.C.) and member of the World Energy Council, Mexico chapter.

Carlos Zepeda Briones. Carlos Zepeda Briones has been the Company's Vice President of Human Resources and Management since September, 2013. He has more than 20 years of experience in various industries and sectors, both in service, food and beverage petroleum and gas, corporate management, plants, supply and distribution chains, among others, and he has served in various positions, such as Human Resources Director at Estafeta Mexicana, Human Resources and Shared Services at Emerson México & CA. He has also worked for multinational companies such as Danone; Coca-Cola Femsa, Panamerican Beverage, Mabe, among others. Mr. Zepeda holds a bachelor's degree in Business Administration from Universidad del Valle de México and a master's degree in Administration with Specialization in the Human Factor, which he obtained with academic excellence honors at the same institution.

Roberto Rubio Macías. Roberto Rubio has been the Company's Comptroller since 2012. He was Foreign Investments Accounting Manager at Sempra San Diego from July 2011 to October 2012 and Manager of Internal Auditing of Luz del Sur, S.A.A (a Sempra Energy subsidiary in Lima, Peru) from January to June 2011. Mr. Rubio served as IEnova's Financial Reporting Manager from 2007 to 2010 in Tijuana, Comptroller of Termoeléctrica de Mexicali from 2005 to 2007, the Company's Accounting Manager in Tijuana from 2003 to 2005 and Comptroller at Ecogas, S. de R.L. DE C.V. in Chihuahua from 2001 to 2003. Before joining Sempra Energy in 2001, Mr. Rubio worked from 1998 to 2001 as Administrative Manager in Denimtex, a textile products manufacturer with more than 800 employees, as Regional Administrative Supervisor at British American Tobacco from 1996 to 1998 and as Senior Auditor at Deloitte Chihuahua, Galaz, Yamazaki, Ruiz Urquiza, S.C. from 1993 to 1996. Mr. Rubio holds an Accounting Degree from the Universidad Autónoma de Chihuahua, 1995, and a Master's Degree in Business Administration, 2001, from the Universidad Autónoma de Chihuahua, and is a Certified Public Accountant certified by the Mexican Public Accountants Institute in 2001.

The chief executive officer and the other members of the senior management must 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 if applicable, its subsidiaries for: (1) knowingly favoring a certain stakeholder or group of stockholders, (2) approving transactions between the Company or its subsidiaries, with related persons without complying with the legal disclosure requirements, (3) taking advantage for themselves the use or enjoyment of the Company's or its subsidiaries' assets against company policy (or authorizing a third party to do so); (4) making inappropriate use of the Company's or its subsidiaries', non-public relevant information, or (5) knowingly disclosing or revealing false or misleading information.

The chief executive officer and the members of the senior management are required, under the LMV, to act for the Company's benefit and not that of a particular stockholder or group of stockholders. The main functions of the Chief Executive Officer include: (1) implementing the instructions approved during stockholders' meetings and by the Board of Directors, (2) submitting to the Board of Directors for approval the main strategies for the business, (3) submitting to the audit and corporate practices committees proposals for internal control systems, (4) disclosing material 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 duty obligations as are the directors.

Main Stockholders

The table below sets forth certain information regarding the ownership of the Company's shares as of December 31, 2013.

		For the year ended on December 31, 2013 (Mexican Pesos)			
Stockholder's name	**Number of shares**	**Fixed Capital Stock**	**Variable Capital Stock**	**Total**	**Total capital stock (Thousands of Dollars)**
Semco Holdco, S. de R.L. de C. V. (a)	935,913,302	49,900	9,359,083,120	9,359,133,020	$ 618,752
Sempra Energy Holdings IX, B.V.	10	100	-	100	
Investing public (b)	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

Semco Holdco, S de R.L. de C.V., a limited liability company, property of Sempra Energy Holdings IX B.V. and Sempra Energy Holdings XI, B.V., both Dutch companies controlled by Sempra Energy, a publicly-traded U.S. energy services holding company based in San Diego, California and listed on the New York Stock Exchange under the "SRE" ticker symbol, which is not under the significant control or influence of any person or entity, as these terms are defined in the LMV.

d) Bylaws and Other Contracts

Set forth below is a description of our capital stock and a brief summary of certain significant provisions of our bylaws and Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to our bylaws and the relevant provisions of Mexican law.

General

We were incorporated on April 2, 1996 under the name "Enova de México, S.A. de C.V." and subsequently on April 25, 2008 became a limited liability company (sociedad de responsabilidad limitada) organized pursuant to the Mexican Corporations Law and changed our name to "Sempra Energy México, S. de R.L. de C.V." On December 3, 2008 we changed our name to "Sempra México, S. de R.L. de C.V." On February 15, 2013, we transformed into a variable capital stock corporation (sociedad anónima de capital variable), which transformation became effective on February 20, 2013. On March 1, 2013, we changed our name to "Infraestructura Energética Nova, S.A. de C.V." Through a unanimous resolution on March 6, 2013, our shareholders approved amending and restating our bylaws to conform them to the provisions of the LMV applicable to public companies, to adopt the form of a variable capital publicly traded corporation (sociedad anónima bursátil de capital variable) and to change our name to "Infraestructura Energética Nova, S.A.B. de C.V." A copy of our amended and restated bylaws has been filed with the CNBV and the BMV and is available for review at www.bmv.com.mx.

The duration of our corporate existence is indefinite. We are a holding company and conduct all of our operations through our subsidiaries.

Because we are a variable capital stock company, our capital stock must have a fixed portion and may have a variable portion. The capital stock is integrated by common registered shares, without par value expression. The theoretical value per share is MXN$10.00 Mexican Pesos. Class I and Class II shares represent the fixed portion and the variable portion of the capital stock, respectively. The variable portion is for an unlimited amount. Fixed portion shares are Class I. Variable portion shares are

Class II. All the company’s shares are of free subscription and therefore can be subscribed and paid by Mexican or foreign investors.

Voting Rights and Stockholders' Meetings

All the Company's shares confer full voting rights. Each share entitles the holder to one vote at all stockholders' meetings.

In accordance with the Company's corporate bylaws, stockholders' meetings can be ordinary or extraordinary. Ordinary stockholders’ meetings are those called to transact any issue not reserved for extraordinary stockholders’ meetings. The Company must hold an ordinary stockholders’ meeting at least once a year within the first four months following the end of each fiscal year. Said meeting shall discuss and approve, among other things, the financial statements, the Board of Directors' report prepared on the financial statements, the appointment of the members of the Board of Directors, as well as their remunerations.

Extraordinary stockholders’ meetings are those called to transact any of the following matters, among others:

- the extension of the Company's duration;
- its voluntary dissolution;
- capital stock increases or decreases;
- a change in corporate purpose or nationality;
- the transformation, merger or spin-off of the Company;
- share buybacks or the issuance of preferred stock;
- share buybacks charged to distributable profits;
- the issuance of bonds, debentures, obligations, debt or capital securities or similar instruments;
- the cancellation of the registration of the Company's shares in the NSR or in any stock exchange on which the Company trades;
- the reform of the corporate bylaws; and
- any other matter that, in accordance with the applicable law or the Company's corporate bylaws, an extraordinary general meeting is required.

Stockholders' Meetings are required to be held in the Company's corporate domicile, which is the Federal District of Mexico City. The Chairman of the Board of Directors, the Chairman of the Audit Committee, the Chairman of the Corporate Practices Committee, the Company Secretary or a court with due jurisdiction may call stockholders’ meetings. In addition, any stockholder or group of stockholders of least 10% of our outstanding capital stock may request the Board of Directors, the Statutory Auditor or the Corporate Practices Committee to call a stockholders’ meeting to transact the matters indicated in said request.

Stockholders' meeting notices must be published in one of the large-circulation newspapers in Mexico City at least 15 calendar days prior to the date of the meeting. Each notice must state the venue, time and order of business for the meeting and must be signed by the persons who call the meeting. The company must have available for the stockholders, the information related to the order of business from the date on which a notice is published until the date of the respective meeting.

To be admitted to any meeting, the stockholders must evidence that they hold stock certificates deposited in a financial institution, brokerage house or deposit institution at least one day before the respective stockholders’ meeting. The Company will then issue the admission passes to the meeting against the provision of said certificates. Stockholders may appoint one or more attorneys-in-fact to represent them in the meetings who hold general or special powers of attorney or are appointed by a proxy signed on the form provided by the Company 15 days prior to the meeting.

Quorum

In order for ordinary meetings to be considered legally installed at the first call, at least half plus one of the outstanding voting shares must be represented and their resolutions shall be deemed valid if adopted by the affirmative vote of a majority of the shares represented at the meeting. Ordinary meetings held at the second call shall be considered legally installed regardless of the number of shares represented; and the resolutions shall be deemed valid if adopted by the affirmative vote of a majority of said shares.

In order for extraordinary meetings to be considered legally installed at the first call, at least 75% of the outstanding shares must be represented and their resolutions shall be deemed valid if adopted by the affirmative vote of at least half plus one of the outstanding voting shares. In order for extraordinary meetings to be considered legally installed at the second or subsequent calls, at least half plus one of the outstanding shares must be represented and their resolutions shall be deemed valid if adopted by the affirmative vote of at least 50% of the outstanding voting shares.

The approval of the shares with or without voting rights that represent 95% of the capital stock shall be required to order to request the CNBV to cancel the registration of the shares in the NSR, in accordance with the provisions of the LMV and other applicable laws.

Dividends and Distributions

Generally, during the annual ordinary stockholders' meeting, the Board of Directors presents the Company's Audited Financial Statements of the prior fiscal year for approval by the stockholders. Once the financial statements are approved, the stockholders determine the allocation of our net profits for the preceding fiscal year. Pursuant to the law, prior to any distribution of dividends, the Company is required to allocate at least 5% of its net profits to a statutory legal reserve until the amount of the reserve equals 20% of paid-in capital stock. Additional amounts may be allocated to other reserves as the stockholders may determine, including amounts allocated to a share buyback reserve. The remainder, if any, may be distributed in the form of dividends, provided that the losses from previous years, if any, have been covered.

All shares outstanding at the date a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. Dividends in cash relating to shares deposited in Indeval are distributed through said institution. Dividends in cash corresponding to shares covered by physical certificates are paid against the delivery of the corresponding coupon. Please refer to section "Dividends".

Capital Increases and Decreases

The Company's fixed portion of capital stock may be increased or decreased by a resolution adopted by our extraordinary stockholders' meeting, with the retrospective reform to the corporate bylaws. The variable portion of the capital stock may be increased or decreased by resolution adopted in an ordinary stockholders' meeting without the need to reform the corporate bylaws.

Pursuant to the provisions of the LGSM, increases or decreases in the fixed or variable portion of the Company's capital stock must be recorded in our registry of capital variations, which we are required to maintain in accordance with said Law. The minutes of meetings in which the stockholders approve to increase or decrease the Company's fixed capital must be notarized and registered before the respective Public Commercial and Property Register. New shares cannot be issued unless the issued and outstanding shares have been paid in full at the time of the new issue, except in certain limited circumstances.

Share Buybacks

The Company may acquire its own shares subject to compliance with the following terms and conditions:

- all acquisitions must be carried out through the BMV;
- the acquisition must be carried out at market price, unless a public tender offer or auction has been authorized by the CNBV;
- the share acquired are charged to stockholders' equity without the need to reduce the capital stock or to the capital stock, and the shares acquired will be held as treasury stock. Share buybacks by the Company do not require the consent of the stockholders;
- the amount and price paid in all share buybacks must be made public;
- the annual ordinary general stockholders' meeting must determine the maximum amount to be spent in the fiscal year for share buybacks;
- the Company must be up to date on payments due on any outstanding debt instruments it issues and registers with the NSR;
- all share buybacks must be in accordance with the requirements of Article 54 of the LMV; and
- the Company must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are traded.

As long as the shares acquired in accordance with the above belong to the Company, it may not exercise the economic or voting rights on them and these shares are not outstanding for the purposes of determining quorum or counting the votes cast in the stockholders' meetings to be held during this period.

Ownership of Capital Stock by Subsidiaries

The Company's subsidiaries may not, directly or indirectly, acquire our shares, except under employee stock option plans and in accordance with the provisions of the LMV.

Buybacks

Subject to the approval of the extraordinary general stockholders' meeting, the Company may buy back the shares of its capital stock by (1) reducing capital, or (2) applying them from retained earnings. Buybacks through the decrease of capital stock are performed on a proportional basis among all the stockholders. Buybacks applied from retained earnings, such redemption shall be conducted (a) by a public offer on the BMV at prevailing market prices, (b) pro-rata among the stockholders, or (c) by selection by batch, if the buyback is conducted at a price other than market.

Dissolution or Liquidation

In the event of 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 proportionally in any distribution made as a result of liquidation.

Share Registration and Transfer

In compliance with the provisions of the LMV and regulations issued by the CNBV, the Company's shares have been registered with the NSR. The Company's shares are evidenced by certificates deposited with Indeval. Stockholders may only hold their shares as book entries in the records held for such purpose by the entities that participate in Indeval. Indeval is the official holder of all the Company's shares. The entities authorized to hold accounts with Indeval include brokerage houses, banks and other Mexican and foreign financial institutions authorized by the CNBV. In accordance with the legal provisions, the Company will only recognize as stockholders and will allow the exercise of the rights pertaining to their shares the parties registered as such in its stockholders' record book and those with deposit certificates issued by Indeval, accompanied by the records issued by the respective participants. All shares transfers must be registered through book entries in Indeval's records.

Rights of First Refusal

In accordance with the law and the Company's bylaws, except in the cases mentioned in the following paragraph, our stockholders have rights of first refusal to subscribe new shares or for capital stock increases. Generally, in the event that the Company issues additional shares, the stockholders will be entitled to subscribe the number of shares necessary to maintain their existing ownership percentage. The stockholders must exercise their rights of first refusal within the time limit established for such purpose by the meeting that approves the issuance of the respective shares, which cannot be less than 15 days from the date of publication of notice of the increase in the Federal Official Gazette and one of the largest-circulating newspapers in Mexico City.

In accordance with the law, stockholders cannot waive their rights of first refusal in advance and said rights may not be represented by a negotiable instrument that is separate from the respective shares. Rights of first refusal will not apply to (1) shares issued in connection with mergers, (2) shares issued in connection with the conversion of convertible securities on resolutions adopted by our stockholders, (3) shares issued in connection with the capitalization of accounts specified in balance sheet line items, (4) the placement of treasury shares as a result of share buybacks by the Company on the Mexican Stock Exchange, and (5) shares issued to be placed in public offers pursuant to the provisions of Article 53 of the LMV, which already-registered issuers to make subsequent public offers without the need to offer their stockholders rights of first refusal, if the issue of said shares was approved by stockholders' meeting.

Rights of Minority Shareholders

Pursuant to the provisions of the LMV and the LGSM, the Company's bylaws include a number of to protect our minority stockholders. These provisions stipulate that stockholders that represent at least 10% of voting shares (including limited or restricted votes) are entitled to:

- request that a stockholders' meeting be called;
- request that the votes on matters on which they were not sufficiently informed, be postponed; and
- appoint and remove any member and their respective substitute.

In addition, the stockholders that represent at least 20% of the capital stock may oppose any resolution adopted by the stockholders' meeting and obtain the suspension of the execution of the resolution from the courts, provided that (1) they submit their request within the 15 days following the adjournment of the meeting in question, (2) the resolution challenged breaches the law or the Company's bylaws, (3) said stockholders have not attended the meeting, or if they have, they voted against the resolution and (4) they grant a bond to guarantee the payment of any losses or damages caused to the Company as a result of the suspension of the resolution in question, in the assumption that a final judgment is passed against the petition filed by said stockholders. However, it must be mentioned these provisions have been enforced on only rare occasions and therefore, there is no certainty as to the steps that would be taken by the court that hears the petition.

Also, the stockholders that represent at least 5% of the capital stock may claim the liability of any of the members of the Company and the payment of losses or damages incurred by the Company as a result of the breach their diligence or loyalty duties. Any such actions have a limitation of five years.

Anti-Takeover Protection Provisions

The Company's corporate bylaws include anti-takeover protection provisions. Generally, these provisions establish thresholds to conduct public offers of compulsory acquisition.

Defined Terms

For purposes of these provisions only, the following terms shall have the following meanings:

"shares" includes the shares of the Company's capital stock, regardless of class or series, as well as any certificate, security or instrument with said shares as underlying assets, which confer any right on or is convertible into said shares, including financial derivative instruments.

"Control", "Controlling" or "Controlled" means: (i) the direct or indirect ownership, together with any Related party, of a majority of the voting shares of common stock of a corporation, or of any certificates or other instruments representing said shares; (ii) the power to appoint a majority of the members of the board of directors or the administrator a company, investment company, trust or similar, vehicle, entity or other economic or commercial association, either directly or through the exercise of the voting rights of shares or partnership interest were exercised in the same sense as the voting rights of the party mentioned or in any other manner, or (iii) the power to determine, directly or indirectly, the policies and/or decisions of Management or the operations of an entity, trust or similar, vehicle, entity, company or other economic or commercial association.

"20% shareholding" means the individual or joint, direct or indirect ownership, through any company, trust or equivalent, vehicle, entity or other economic or commercial association, of 20% or more of the Company's common voting shares.

"40% shareholding" means the individual or joint, direct or indirect ownership, through any company, trust or equivalent, vehicle, entity or other economic or commercial association, of 40% or more of the Company's common voting shares.

"Related party" means any individual or entity, corporation, investment company, trust or other vehicle, company or other economic or commercial association, or the spouse, companion or any relative by blood, marriage or adoption within the fourth degree, 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 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

The Company's bylaws stipulate that, subject to certain exceptions, any party who, individually or as a group, with one or more related parties, intends to acquire, either directly or indirectly by any title, shares or rights on shares, either in one or a series of acts without a time limit between them and notwithstanding the percentage of shares held by one party, either individually or in conjunction with one or more related parties prior to the acquisition, the consequence of which is that their individual or joint ownership structure with the related parties represents a stockholding equal to or greater than 10% of the total shares, must (i) obtain the prior written consent of the Company's Board of Directors before carrying out the transaction in question, and (ii) in cases where the acquisition results in a stockholding of 20%, 40% or a change in control of the Company, the additional requirements below must be met.

Any shares acquired without approval or in breach of the Company's anti-takeover provisions, including any acquisitions by parties who already hold Company shares will not be recorded in the Company's stock record book. Furthermore, parties deemed to have acquired our shares in breach of the anti-takeover provisions of the Company's bylaws may exercise the corporate rights associated with said shares, including, specifically, the voting rights. In addition, parties who acquire shares in breach of the provisions of the bylaws shall be required to sell the shares so acquired through one or several transactions on the Stock Exchange, within a period not exceeding 90 days from their acquisition date. The foregoing shall be without prejudice to the economic rights of the purchaser as long as the shares acquired have not been sold.

Board of Directors' Authorizations

Potential purchasers must obtain the prior approval of the Board of Directors before undertaking any of the transactions described above. To obtain such approval, potential purchasers must provide the Board with a written request that contains certain details about the transaction, the purchaser and the source of the funds. If the Board of Directors does not approve or decline the request in the manner and the time periods provided in the bylaws, the request will be deemed to be denied.

Mandatory Tender Offers in the Case of Certain Acquisitions

If the Board of Directors authorizes a share acquisition that results in a stockholding 20% but less than a 40%, regardless of the authorization, the purchase must make a public offer at a cash price not less than the greater of (i) the percentage of stock to be purchased, or (ii) 10% of the Company's shares, provided that such acquisition would not result in a 40% stockholding or a change of control. In the event that the Board of Directors approves an acquisition with the consequence of obtaining of a 40% stockholding or a change in control, notwithstanding such authorization, the purchaser must make a public offer for 100% of the outstanding shares in circulation for a cash price not less than the greater price between (i) the book value of the share according to the most recent quarterly income statement approved by the Board of Directors, (ii) the highest closing price on the Stock

Market during the 365 days prior to the date of the authorization of the acquisition, or (iii) the highest purchase price per share paid at any time by the purchaser. Furthermore, all stockholders must pay the same price for shares traded during the offer. The provisions contained in the Company's bylaws in terms of the obligation to conduct the public offer for the purchase as described above are stricter than the obligations stipulated by the LMV and in some cases differ from these latter. The Company considers that the provisions of its Corporate Bylaws, which prevail over the LMV, grant greater protection to minority stockholders.

Exceptions

Certain transactions are exempt from the anti-takeover provisions of the Company's bylaws, including, among others, direct or indirect share acquisitions or transfers by succession, by parties that control the Company (including transmissions that result in a change of control of the party or parties that control the Company), acquisitions or transmissions conducted by the Company, its subsidiaries, affiliates or any trust created by the Company or any of its subsidiaries, or acquisitions or transmissions authorized by the Board of Directors or a stockholders' meeting.

Registration of Reforms to Anti-Takeover Provisions

Any amendments to the anti-takeover provisions contained in the Company's bylaws must be registered in the Public Commercial and Property Register in the Company's domicile.

Cancellation of the Share Registration with the NSR

Should the Company opt to cancel the registration of its shares in the NSR, or if such registration is canceled by the CNBV, our controlling stockholder will be required to conduct a public offer for all the shares held by the remaining stockholders. Pursuant to the law and the Company's bylaws, a "controlling" stockholder refers to the holders of the majority of the shares or have the power or ability to determine the outcome of the matters requiring stockholders' vote at meeting, to appoint and remove the majority of the members of the Board of Directors, managers or other equivalent officials or to determine, directly or indirectly, the course of the Company's management, strategies or principal policies.

Pursuant to the law and the Company's bylaws, if the controlling stockholder does not purchase all the through the afore-mentioned public offer, said stockholder will be required to establish a trust and contribute thereto, for a period of at least six months, the amount necessary to purchase all the shares that remain publicly held following said offer, at the same purchase price as the price paid for the shares purchased through said offer.

The purchase price shall be the higher of (1) the weighted average trading price of the Company's shares on the BMV during the 30 trading day period immediately preceding the date of the public offer or (2) the book value of said shares pursuant to the most recent quarterly balance sheet filed with the CNBV and the BMV. The cancellation of the registration of the shares at the Company's request is subject to approval by (a) the CNBV and (b) the holders of at least 95% of our outstanding shares, adopted at a stockholders' meeting.

Other Provisions

Variable Capital

The Company is permitted to issue shares representing both its fixed and variable capital. Unlike the issuance of fixed capital shares, the issuance of variable-capital shares does not require an amendment of the Company's bylaws, although it does require a majority vote of the stockholders. Any holder of variable capital shares that wishes to exercise the right of withdrawal of such shares is required to notify the Company in writing to that effect. The withdrawal shall take effect at the end of the current fiscal year, if the Company receives such notice within the first three quarters of the fiscal year; or at the end of the next year, if the notice is received during the fourth quarter.

Forfeiture of Shares

As required by law, the Company's bylaws stipulated that foreign stockholders will be deemed as Mexican citizens with respect to their shares and the assets, concessions, stockholdings or partnership interests held by the Company or those derived from any agreements signed by the Company with the Mexican government. Foreign stockholders shall be deemed as bound not to seek the protection of their governments; otherwise under penalty, they shall forfeit their shares to the benefit of the Mexican government. Mexican law requires that such a provision be included in the bylaws of all Mexican companies, unless said bylaws prohibit the ownership of shares by foreigners.

Conflicts of Interest

Pursuant to the LGSM, no stockholder may participate in any deliberation of, or vote on, any business transaction that represents a conflict of interest with the Company's interests. All indirect stockholders who breach this provision shall be liable for any damage caused to the Company as if said transactions had not been adopted without its vote.

Right of Separation

In accordance with the provisions of the LGSM, in the event that the stockholders' meeting approves the change of corporate purpose or the nationality of the Company, or its transformation to another corporate type, any stockholder with the right to vote on these matters who votes against the resolution shall be entitled to separate from the Company and obtain the reimbursement of their shares at their book value in accordance with the most recent financial statements approved by the stockholders, and providing that this right is exercised within the 15 days following the adjournment of the meeting that adopted this resolution.

e) Other Corporate Governance Practices.

Code of Ethics

IEnova's values guide our interaction with government bodies and regulators, customers, the community, companies and our co-workers. Therefore, all Company employees are encouraged to understand and adhere to the standards contained in the Code of Ethics.

Our Code of Ethics is a clear, useful and practical guide for the ethical and legal compliance in our workplace. It is a decision-making tool that describes our policies and procedures in detail.

Ethics and Compliance Help Line 01 800 062 2107

Ethics and Compliance Help Line is available 24 hours a day, seven days a week, to report inappropriate conduct that breaches our code of Ethics and affects our employees and the Company. The help line is anonymous, confidential and independent to 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 politics
12. Fair competition
13. Government relations
14. Acquisition of goods and services
15. Regulatory Compliance
16. Business gifts and gratuities
17. Stock trading
18. No conflicts of interest
19. Intellectual property
20. Internal business controls
21. Financial information
22. Payments and undue collections
23. The Company's Assets
24. Foreign Corrupt Practices Act (FCPA)

Sustainability

Sustainability is integrated into the business model of the Company as a route of continuous improvement, focused on creating value for our stakeholders from three pillars: environmental, social and economic; on ethical grounds and corporate governance.

IEnova has been characterized by its ethical commitment to operate in strict compliance with applicable regulations and standards, conducts that have enabled us to gain and maintain trust in various interest groups.

We are currently working to develop a strategy that allows us to focus on the actions of all business lines under a single model that encompasses the three pillars of sustainability. This model will enable us to improve our working relations, support the communities in which we operate, generate environmental awareness to save our environment, increase the value of our shares and satisfy our consumers' needs, among others.

For more information on the sustainability's actions at the Company, please refer to our 2013 Sustainability Report, available from May 30, 2014. www.ienova.com.mx

5. CAPITAL MARKETS

a) Capital Structure

Partnership Interests and Shares of IENOVA, previously Sempra México

On August 16, 2012, Sempra Energy Holdings VIII, B.V. ("BV8" a Sempra Energy subsidiary) and Sempra Energy Holdings XI, B.V. ("BV11" a Sempra Energy subsidiary), entered into an additional inter-company contribution contract pursuant to which BV8 agreed to make an additional non-monetary contribution in the capital of BV11, consisting of its partnership interest in the capital stock of Sempra México. As a result of such transaction, BV11 became the controlling stockholder of Sempra México.

On September 10, 2012, the portion of Sempra México's variable capital stock was increased by USD$480,094 (MXN$5,861,622,509), by means of the contribution that BV11 had in the capital stock of Sempra Gasoductos México to that date; this increase was integrated by USD$291,152 (MXN$3,252,367) of social parties and USD$188,942 (MXN$2,609,256) of social capital contribution premium, which were eliminated in the consolidate. As a result of this capital stock increase, Sempra México assumed ownership and control of Sempra Gasoductos México.

As of December 31, 2012, Sempra México's capital stock was comprised of two types: issued and outstanding; the fixed capital is comprised of MXN$50,000 and the variable portion in the amount of MXN$9,359,083,119, which are the property of BV11 (99.999999%) and BV9 (0.000001%).

On February 15, 2013, during a General Stockholders' Meeting, a capital increase of MXN$1.00 was approved, which was subscribed and paid for by BV11, increasing the value of its partnership interests, as well as the Company's transformation from a limited liability partnership *(sociedad de responsabilidad limitada de capital variable)* to a limited liability corporation *(sociedad anónima de capital variable)*. As a result of these changes, the former partnership interests were exchanged for stock shares, distributed as follows:

Stockholder's name	**Shares**		**Total**
	Class I	**Class II**	
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 capital stock is integrated by common registered shares, without par value expression. The theoretical value per share is MXN$10.00. Class I and Class II shares represent the fixed portion and the variable portion of the capital stock, respectively. The variable portion is for an unlimited amount.

(a) On March 6, 2013, BV11 subscribed a capital increase in Semco Holdco S. de R.L. de C.V. ("Semco", a Sempra Energy subsidiary), agreeing to pay for such capital increase through a contribution in IEnova shares for an amount to be determined according to the share price of the Global Offer, and subject to the IEnova shares being duly registered in the NSR. On the effective date of the Global Offer and registration in the NSR, Semco acquired the whole of BV11's shares, in accordance with the terms described; therefore, as from that date, Semco is IEnova's new controlling company.

(b) On March 21, 2013, the Company made a Global Offer of shares. Through the Global Offering, IEnova issued 189,661,305 shares at an initial offering price of MXN$34.00 pesos per share. The offer included an overallotment of up to 28,449,196 shares. The aggregate amount of the Global Offer was USD$520,707 (MXN$6,448.4 million pesos).

(c) On March 27, 2013, the initial purchasers in the Global Offering the placing intermediaries both in Mexico and abroad exercised the agreed overallotment options. The amount of the overallotments was USD$78,106 (MXN$967 million), corresponding to 28,449,196 shares at an initial price of MXN$34.00 pesos per share.

The issuer has not issued any ordinary participation certificates in respect of its shares, or any debentures convertible into our shares.

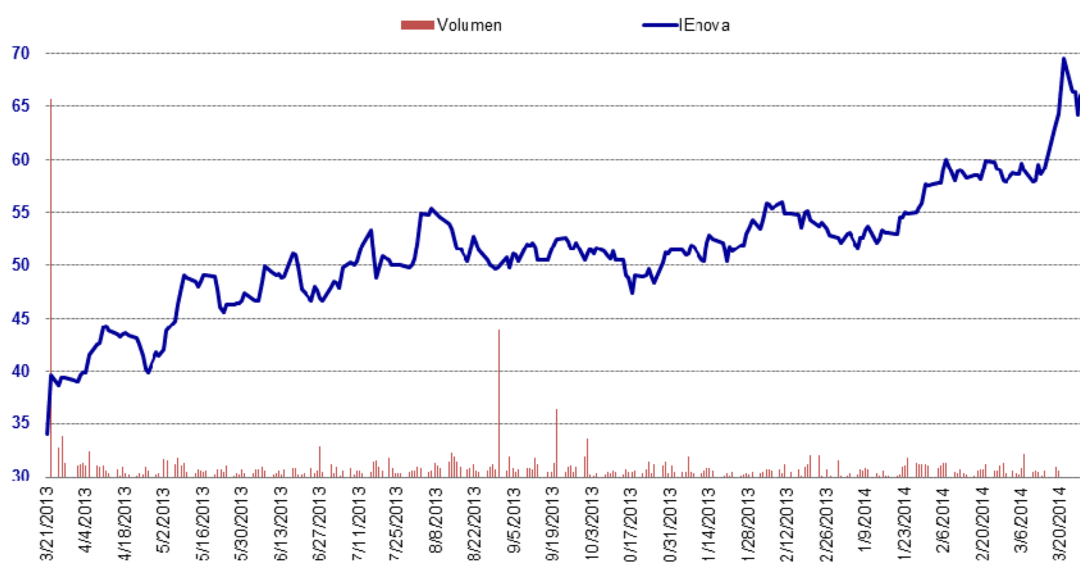
The issuer does not maintain an American Depositary Receipts (ADR) program and its shares are not listed in any other market.

b) Market Performance of the Shares

The table below shows the maximum and minimum closing prices and the daily average operation volume of our shares in the BMV for the periods shown:

	Closing Price per common share (In pesos)		Average Daily Volume of Operations (Thousands of Shares)
	High	Low	
2Q 13	51.08	39.02	1,295
3Q 13	55.37	47.90	2,078
4Q 13	56.02	47.40	1,197
1Q 14	69.60	51.50	1,235

Source: Own preparation using data from Bloomberg.



IEnova shares have been part of the BMV Price Index since September 2nd, 2013.

c) Market Maker

On June 7, 2013, the Company announced the signing of a Market Formation Services Contract with Casa de Bolsa Credit Suisse (Mexico), S.A. de C.V., Grupo Financiero Credit Suisse (Mexico).

6. UNDERLYING ASSETS

Not applicable

7. PERSONS RESPONSIBLE

April 30, 2014

We, Carlos Ruiz Sacristan, Arturo Infanzon Favela and René Buentello Carbonell, in our capacities of Chief Executive Officer, Executive Vice President of Operations and Finance (Finance Director) and Vice President General Counsel (Legal Director) of Infraestructura Energética Nova, S.A.B. de C.V, respectively, and in accordance with the provisions of Article 33, section I, paragraph (b) of the General Provisions Applicable to the Securities Issuers and Other Participants in the Securities Market, issued by the National Banking and Securities Commission, hereby declare the following:

The undersigned declare under oath that within the scope of our respective duties, we have prepared the information relating to Infraestructura Energética Nova, S.A.B. de C.V, contained in this Annual Report for the year ended December 31 2013, which, to the best of our knowledge and understanding, reasonably reflects the situation of the Company. We also declare that to the best of our knowledge, no information contained in this Annual Report has been omitted of falsified or may be misleading to investors.

Carlos Ruiz Sacristán
Chief Executive Officer

Arturo Infanzón Favela.
Executive Vice President of Operations and Finance
(Finance Director)

Rene Buentello Carbonell
Vice President General Counsel
(Legal Director)

8. ANNEXES

Infraestructura Energética Nova, S. A. B. and Subsidiaries (formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012 and Independent Auditor´s Report Dated April 15, 2014

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 489
Piso 6
Colonia Cuauhtémoc
06500 México, D.F.
México

Tel: +52 (55) 5080 6000
Fax: +52 (55) 5080 6001
www.deloitte.com/mx

Independent Auditors' Report to the Board of Directors and Stockholders of Infraestructura Energética Nova, S. A. B. de C. V.

We have audited the accompanying consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (formerly Sempra México, S.A. de C.V. and Subsidiaries) (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of profit and loss, profit and loss 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 notes for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Deloitte

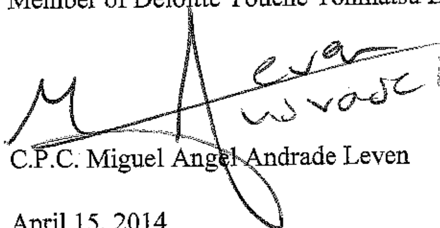
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (formerly Sempra México, S.A. de C.V. and Subsidiaries) as of December 31, 2013 and 2012, and the results of its operations, changes in its stockholders' equity and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Miguel Angel Andrade Leven

April 15, 2014

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

	Notes	December 31, 2013	December 31, 2012 (Note 2.3.)
Assets			
Current assets:			
Cash and cash equivalents	4	$ 103,880	$ 85,073
Short-term investments	4	207,027	-
Trade and other receivable – Net	5	64,035	78,968
Due from related parties	6	24,860	28,946
Income tax receivable	21	15,931	8,840
Inventory of natural gas	7	3,836	9,273
Derivative financial instruments	20	9,188	2,827
Value Added Tax receivable		43,914	12,626
Other assets	9	25,457	10,403
Total current assets		498,128	236,956
Non-current assets:			
Due from related parties	6	331	416
Derivative financial instruments	20	-	2,330
Finance lease receivables	8	14,700	14,756
Deferred income tax asset	21	106,227	2,375
Investment in joint venture	10	366,288	331,599
Goodwill	11	25,654	25,654
Property, plant and equipment – Net	12	2,213,837	1,884,739
Carbon allowances	17	11,584	-
Other assets	9	5,159	1,893
Total non-current assets		2,743,780	2,263,762
Total assets		$ 3,241,908	$ 2,500,718

	Notes	December 31, 2013	December 31, 2012 (Note 2.3.)
Equity and liabilities			
Current liabilities:			
Trade and other payables	13	$ 49,459	$ 24,448
Due to related parties	6	3,655	93,455
Income tax liabilities	21	90,130	18,170
Derivative financial instruments	20	10,705	11,434
Other financial liabilities	15	12,853	1,605
Provisions	18	1,945	2,788
Other payable taxes		7,815	5,790
Other liabilities	16	16,527	2,517
Total current liabilities		193,089	160,207
Non-current liabilities:			
Long-term debt	19	394,656	-
Due to related parties	6	38,893	331,803
Deferred income tax liabilities	21	205,385	170,169
Carbon allowances	17	11,151	-
Provisions	18	26,430	34,820
Derivative financial instruments	20	53,208	38,448
Employee benefits	14	2,684	2,153
Total non-current liabilities		732,407	577,393
Total liabilities		925,496	737,600
Stockholders' equity:			
Common stock	22	762,949	618,752
Additional paid-in capital	22	973,953	536,577
Accumulated other comprehensive income		(24,273)	(9,604)
Retained earnings		603,783	617,393
Total equity attributable to owners of the Company		2,316,412	1,763,118
Total equity and liabilities		$ 3,241,908	$ 2,500,718

See accompanying notes to consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Profit and Loss

(In thousands of U. S. Dollars, except per share amounts)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	24	$ 677,836	$ 607,607
Cost of revenue		(328,817)	(253,299)
Administrative and other expenses	26	(99,685)	(76,423)
Depreciation and amortization	29	(61,164)	(61,349)
Interest income	25	1,372	1,027
Finance costs	28	(5,035)	(11,346)
Other gains and (losses)	27	6,986	(8,845)
Profit before tax and share of profits in joint ventures		191,493	197,372
Income tax expense	21	(83,792)	(40,801)
Share of profits of joint ventures, net of income tax	10	34,689	37,444
		(49,103)	(3,357)
Profit for the year	30	$ 142,390	$ 194,015

All results are from continuing activities.

All earnings are attributable to Infraestructura Energética Nova, S. A. B. de C. V. (formerly Sempra México, S. A. de C. V.)

Earnings per share:

	Notes	2013	2012
Basic and diluted earnings per share:	30	$ 0.13	$ 0.21

See accompanying notes to consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Profit and Loss and Other Comprehensive Income

(In thousands of U. S. Dollars)

	Notes	Years ended December 31, 2013	2012
Profit for the year	30	$ 142,390	$ 194,015
Other comprehensive (loss) income:			
Items that will not be reclassified to profit or loss			
Actuarial gains on defined benefits plans	14	179	414
Income tax relating to components of other comprehensive income		(54)	(124)
Total items that will not be reclassified to profit and loss		125	290
Items that will reclassified to profit and loss:			
Loss on valuation of financial instruments held for hedging purposes		(18,381)	-
Income tax on loss on valuation of financial instruments held for hedging purposes	21	5,514	-
Exchange differences on translating foreign operations		(1,927)	13,650
Total items that may be reclassified subsequently to profit and loss		(14,794)	13,650
Other comprehensive (loss) income for the year		(14,669)	13,940
Total comprehensive income for the year		$ 127,721	$ 207,955

All comprehensive income is attributable to Infraestructura Energética Nova, S. A. B. de C. V. (formerly Sempra México, S. A. de C. V.)

See accompanying notes to consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries
(Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Common shares	Additional paid-in capital	Other comprehensive income	Retained earnings	Total
Balance as of January 1, 2012	$ 524,842	$ 536,577	$ (23,544)	$ 657,388	$ 1,695,263
Profit for the year	-	-	-	194,015	194,015
Actuarial gains on defined benefits plans – Net	-	-	290	-	290
Exchange differences on translating foreign operations	-	-	13,650	-	13,650
Total comprehensive income for the year	-	-	13,940	194,015	207,955
Capitalization of retained earnings of Sempra Gasoductos México, S. de R. L. de C. V.	93,910	-	-	(93,910)	-
Payment of dividends (Note 23)	-	-	-	(140,100)	(140,100)
Balance as of December 31, 2012	618,752	536,577	(9,604)	617,393	1,763,118
Profit for the year	-	-	-	142,390	142,390
Loss in financial instruments valuation held for hedging purposes – Net	-	-	(12,867)	-	(12,867)
Actuarial gains on defined benefits plans – Net	-	-	125	-	125
Exchange differences on translating foreign operations	-	-	(1,927)	-	(1,927)
Total comprehensive income for the year	-	-	(14,669)	142,390	127,721
Issuance of shares – Net (Note 22)	144,197	437,376	-	-	581,573
Payment of dividends (Note 23)	-	-	-	(156,000)	(156,000)
Balance as of December 31, 2013	$ 762,949	$ 973,953	$ (24,273)	$ 603,783	$ 2,316,412

See accompanying notes to consolidated financial statements.

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Formerly Sempra México, S. A. de C. V. and Subsidiaries)

Consolidated Statements of Cash Flows

(In thousands of U.S. Dollars)
(Indirect method)

	Notes	Years ended December 31, 2013	2012 (Note 2.3)
Cash flows from operating activities			
Profit for the year	30	$ 142,390	$ 194,015
Adjustments for:			
Income tax expense	21	83,792	40,801
Share of profits of joint ventures, net of income tax	10	(34,689)	(37,444)
Finance costs	28	5,035	11,346
Interest income	25	(1,372)	(1,027)
Loss on disposal of property, plant and equipment		5,391	561
Impairment loss recognized on trade receivables		9	281
Depreciation of non-current assets	24	61,014	61,199
Amortization of non-current assets	24	150	150
Net foreign exchange loss		2,303	1,631
Gain on valuation of derivative financial instruments		(19,000)	(1,238)
		245,023	270,275
Movements in working capital:			
Decrease (increase) in trade and other receivables		19,066	(36,520)
Decrease in inventories		5,437	1,306
(Increase) decrease in other assets		(54,057)	2,028
Increase (decrease) in trade and other payables		18,241	(26,591)
(Decrease) increase in provisions		(28,512)	513
Increase (decrease) in other liabilities		32,219	(2,077)
Cash generated from operations		237,417	208,934
Income taxes paid		(74,657)	(35,502)
Net cash provided by operating activities		162,760	173,432
Cash flows from investing activities:			
Interest received		-	1,003
Acquisitions of property, plant and equipment		(369,672)	(50,278)
Short-term investments		(207,027)	-
Net cash used in investing activities	4	(576,699)	(49,275)
Cash flows from financing activities:			
Interest paid		(11,557)	(9,421)
Issuance or ordinary shares under initial public offering of shares		598,812	-
Share issue costs		(24,627)	-
Proceeds from loans from related parties		12,383	209,013
Loans granted to related parties		(100)	-
Repayment of loans to related parties		(388,042)	(128,699)
Proceeds from debt issuance		408,278	-
Debt issuance costs		(3,003)	-
Dividends paid	23	(156,000)	(140,100)
Net cash provided by (used in) in financing activities		436,144	(69,207)
Net increase in cash and cash equivalents		22,205	54,950
Cash and cash equivalents at the beginning of the year		85,073	27,364
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,398)	2,759
Cash and cash equivalents at the end of the year / period		$ 103,880	$ 85,073

See accompanying notes to consolidated financial statements.

1. General Information, relevant events and activities

1.1. General information

Infraestructura Energética Nova, S. A. B. de C. V. (formerly Sempra México, S.A. de C.V.) and subsidiaries (collectively, the "Company" or "IEnova") are companies domiciled and incorporated in Mexico. Their parent and ultimate holding company is Sempra Energy ("Parent") domiciled 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 36.

1.2. Significant events

1.2.1. *Change of legal name –*

Pursuant to a resolution of the general ordinary members' meeting on February 15, 2013, the Company's change in legal form from "Sociedad de Responsabilidad Limitada de Capital Variable" ("S. de R. L. de C. V.", limited liability company) to "Sociedad Anónima de Capital Variable" ("S. A. de C. V.", corporation) was approved. Subsequently, through a resolution approved at the extraordinary general shareholders' meeting held on March 1, 2013, the legal name was changed from Sempra México, S. A. de C. V. to "Infraestructura Energética Nova, S. A. de C. V."

Additionally, as described in Note 1.2.3., through unanimous resolutions adopted outside the shareholders' meeting, on March 6, 2013, the Company again changed its legal form from S.A. de C.V. to "Sociedad Anónima Bursátil de Capital Variable" ("S. A. B. de C. V.", securities corporation) in order to comply with provisions of the Mexican Securities Market Law.

1.2.2. Debt securities offering–

On February 11, 2013, the Company received approval from the Mexican Banking and Securities Commission ("CNBV", by its initials in Spanish), of its program for the issuance and public offering of debt securities ("Certificados Bursátiles", CEBURES, by its initials in Spanish) in Mexico for a total amount of 12,800 million Mexican pesos ("Pesos") or its equivalent in investment units ("UDIs", by its initials in Spanish), with a term of 5 years.

On February 14, 2013, the Company entered into two public placements of CEBURES in accordance with the above mentioned program. The first placement was for $102 million ($1.3 billion Pesos) and the second placement was for $306 million ($3.9 billion Pesos). See Note 19 for more detail.

The net proceeds from the issuances of CEBURES were used for repayment of its balances due to related parties and for general corporate purposes, including capital expenditures (development of new pipeline projects) and working capital.

1.2.3. *Initial public offering of shares –*

On March 21, 2013, the Company carried out an initial public offering of shares ("IPO") in Mexico and a private offering of shares in international markets (collectively the "Global Offering"). Through the Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was $520,707 ($6,448.4 million Pesos).

In connection with the Global Offering, on March 27, 2013, the bookrunners in Mexico 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.

As a result of the Global Offering, the Company obtained total resources of $574,185 ($7,118.4 million Pesos), net of issuance costs for $24,267 ($297.3 million Pesos). Subsequent to the Company's Global Offering, subscribed and paid common stock of Infraestructura Energética Nova, S. A. B. de C. V. is represented by a total of 1,154,023,813 shares.

The net proceeds from the IPO are invested in short-term investments and will be used for general corporate purposes and for the financing of Company's current investment and expansion plans.

1.2.4. *Projects in development –*

a. *Sonora Project ("Gasoducto Noroeste")*. On April 25, 2013, Gasoducto de Aguaprieta, S. de R. L. de C. V. ("GAP"), Company's subsidiary, entered into a turnkey contract with GDI SICIM Pipelines, S. A. de C. V. ("GSP") regarding the "Sonora Project", for the construction and operation of a gas pipeline network of approximately 505 kilometers approximately, with the alternative to extend it to 835 total kilometers, in accordance with the natural gas transportation service contracts entered into between GAP and the Federal Electricity Commission ("CFE", by its initials in Spanish) on October, 2012. See more details in Note 31.

b. *Energía Sierra Juárez.* On May 17, 2013, Energía Sierra Júarez, S. de R. L. de C. V. ("ESJ"), ESJ Turbinas, S. de R. L. de C. V. ("ESJ Turbinas") and ESJ Turbinas II, S. de R. L. de C. V. ("ESJ Turbinas II"), Company's subsidiaries, and Vestas WTG México, S. A. de C. V. ("Vestas") entered into a Wind Turbine Supply and Warranty Agreement for the execution of the first phase of the "Energía Sierra Juárez" Project, for approximately 155.1 megawatts ("MW") of a wind park with an estimated capacity of up to 1,200 MW in the Sierra de Juárez mountain range in Baja California, Mexico. See more details in Note 31.

c. *Los Ramones I.* On July 29, 2013, through Gasoductos de Chihuahua, S. de R. L. de C. V. ("GdC"), the joint venture with PEMEX Gas y Petroquímica Básica ("PGPB") (See Note 10), the Company entered into a contract for providing natural gas transportation service to PGPB, for 25 years regarding all of the transport capacity of the pipeline network known as "Los Ramones I".

The Los Ramones I project is a pipeline network with a length of approximately 114 kilometers, a diameter of 48 inches and a transportation capacity in its final stage of 2.1 billion cubic feet per day, with a trajectory beginning at the border with the U.S. near the city of Camargo, Tamaulipas and ending in Los Ramones, Nuevo Leon. The pipeline network will interconnect at the origin point on the border with the "Agua-Dulce-Frontera" pipeline and at the destination point with the pipeline network known as "Los Ramones II" which has a length of approximately 740 kilometers and a diameter of 42 inches".

d. *Los Ramones Norte*. On October 25, 2013, PGPB separated the implementation of the "Los Ramones II" project into two segments identified as Ramones Norte and Ramones Sur, due to the fact that the result of the tender for this project in October 15, 2013 was declared as void.

The development of the Los Ramones Norte segment will be overseen by GdC. This segment is comprised of an investment of approximately $1,052 million and includes a 441 kilometer pipeline system and two compression stations located between Los Ramones I, Nuevo León and San Luis Potosí.

1.2.5. Tax and Energy Reforms –

a. *Tax reform*. On September 8, 2013, the Mexican president announced the tax reform initiative. On December 11, 2013, a decree was published in the Official Gazette whereby several tax regulations were amended, supplemented, and repealed, becoming effective on January 1, 2014. Upon enactment of such decree, the income tax and the business flat tax ("ISR" and "IETU", respectively, by their initials in Spanish) laws as of December 31, 2013, were repealed and superseded by a new income tax law.

The main impacts of this reform for IEnova in its consolidated financial statements are:

- *Income tax rate*. The former income tax law indicated a reduction in the tax rate to 28% for 2014 and future years. The rate under the new income tax law is 30% for 2014 and future years.

  This change in tax rates impacts annual profits as follows:

  - For 2013, the change in rates resulted in an increase in deferred tax expense of approximately $15 million of income tax expense considering their effects in deferred income taxes.

  - Regarding 2014 to 2018, the Company estimates that the change in rates will result in an increase in income tax expense during this five year period of approximately $27 million.

- *Income tax consolidation regime*. The income tax consolidation regime in effect as of December 31, 2013 was replaced by a new regime in which the benefits realized from tax consolidation are subject to recapture over three years instead of five years. In connection with the elimination of the income tax consolidation regime, there is an obligation to make an advance payment for approximately $87 million in 2014.

- *Income tax on dividends*. Also, a new income tax on dividends was created equivalent to 10% on dividends received by foreign residents.

b. *Energy reform*. On December 20, 2013, the Mexican presidency signed a decree establishing constitutional reform with respect to laws governing the energy sector, approved by the national congress and the majority of state congresses. The decree 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. As of the date of issuance of these consolidated financial statements, no secondary legislation that will define the details of private investment in the above mentioned business segments has been enacted.

The Company's plans for participating in business segments that have been newly opened to private investment in connection with the aforementioned constitutional reform in the energy sector will depend on our evaluation of the potential of each project to add value and growth to our portfolio, mainly through obtaining synergies, and adherence to Company's project selection policy.

1.3. Activities

The Company operates in the energy sector. The Company is organized in two separately managed reportable segments consisting of Gas and Power. Amounts labeled as Corporate consist primarily of professional services rendered by parent organizations (Note 24).

The Gas segment develops, owns and operates, or holds interests in, natural gas and propane pipelines, LPG storage facilities, and natural gas distribution and sale operations, in the following Mexican States: Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Nuevo León and Jalisco. It also, owns and operates a liquefied natural gas ("LNG") terminal in Baja California, Mexico for importing LNG.

The Power segment owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, and is developing a renewable energy project in Baja California, México, using wind resources to serve clients in the U. S.

1.3.1 Gas segment. The Company's subsidiaries allocated in this segment are:

a. Ecogas México, S. de R. L. de C. V. ("ECO") is engaged in the distribution and sale of natural gas for industrial, residential and commercial use in three local distribution zones, Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtémoc and Anáhuac) and La Laguna-Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

   During 1996, 1997 and 1999, the Mexican Energy Regulatory Commission (Comisión Reguladora de Energía, "CRE" by its initials ins Spanish), 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 of ECO for the local distribution zone 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 the adjustment to authorized tariffs to be applied in the five-year plan related to 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, 2013 and 2012, ECO had over 99,000 and 93,000 customers, respectively.

b. PE International Canadá , 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 in administrative, personnel and operational services to other subsidiaries of the group.

d. Gasoducto Rosarito, S. de R. L. de C. V. ("GRO") is engaged in transportation of natural gas, serving the energy requirements of Baja California, México. GRO operates the Gasoducto Baja Norte pipeline system ("GBN, also identified as Baja East pipelines system), is comprised of three natural gas pipelines (*Rosarito Mainline, LNG Spur and Yuma Lateral)* and a 30,000 horse power ("HP") compressor station located in Baja California, México. The total length of GBN system is approximately 302 kilometers. The system begins at the interconnection with the El Paso Natural Gas Co. pipeline near Ehrenberg, Arizona, U. S. ("North Baja Pipeline"), and ends in southern Tijuana at the interconnection with the Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("TGN", a related party) pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones with the North Baja Pipeline and travels through Mexicali and Tecate, ending at the interconnection with TGN. These three pipelines operate under one transportation permit issued by the CRE.

Rosarito Mainline: This system was originally placed in service in August 2002 to supply natural gas from the United States of America to several power plants and industrial customers in the Baja California, Mexico market. This system is a 30-inch diameter pipeline with a length of approximately 225 kilometers and a design transportation capacity of 534 million cubic feet per day ("MMcfd").

LNG Spur: This system was completed in May 2008 and transports natural gas to the Rosarito Mainline for delivery to power plants and the Baja California market. This system is a 42-inch diameter pipeline with a length of approximately 72 kilometers and a design transportation capacity of 2,600 MMcfd.

Yuma Lateral: This system was the latest addition to the GBN 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 five kilometers and a design transportation capacity of 190 MMcfd.

e. TGN (also known as the Baja West pipeline system) is engaged in the transportation of natural gas in accordance with a permit issued by the CRE, through a 45-kilometer, 30-inch pipeline with a design transportation capacity of 940 MMcfd. TGN interconnects with the GBN pipeline system in the Tijuana, Baja California, México, area and extends north to interconnect with the San Diego Gas & Electric Company ("SDG&E", a related party in U. S.) system at the Otay Mesa International border and southwest to the CFE's 600 megawatts ("MW") Presidente Juárez Power Plant in Rosarito, Baja California, México. The TGN pipeline system was placed in service in June 2000. A 19-kilometer expansion to the TGN system began operations in May 2008.

f. Sempra Gasoductos México, S. de R. L. de C. V. ("Sempra Gasoductos México") is engaged in the acquisition and subscription of any kind of participation in the capital stock of any kind 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 Gasoductos México was acquired by Sempra Energy on April 30, 2010.

g. Sempra Compresión México, S. de R. L. de C. V. ("SCM") was incorporated on August 8, 2003 as a result of a spin-off of El Paso Energy Marketing de México, S de R. L. de C. V. It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

   In 2001, SCM entered into an agreement with PGPB for the rendering of natural gas compression services for a 20-year period. The term of the agreement may be extended up to five additional years by mutual agreement of SCM and PGPB.

h. GAP, a wholly – owned subsidiary of Sempra 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 30 years and is renewable every 15 years.

   On June 28, 2002, GAP entered into a 25-year gas transportation agreement with El Paso Energy Marketing de México, S. de R. L. de C. V. ("EPEMM"). The 13 km pipeline operated by GAP, which is also referred to as the Aguaprieta Pipeline, starts on the border with Arizona, U. S., and runs to the Naco-Nogales combined-cycle thermoelectric power station owned by Fuerza y Energía de Naco-Nogales, S. A de C. V., located in Agua Prieta, Sonora, México.

Currently, GAP is also in charge of the constructions and operation of the Sonora project (see Note 1.2.4 a.)

i. Sempra Gasoductos Holding, S. de R. L. de C. V. ("SGH") is engaged in the acquisition and subscription of participation in other companies.

   In April, 30, 2010, SGH acquired a 50% equity ownership with equivalent voting power in GdC, a jointly controlled entity with PGPB.

j. IEnova, S. de R. L. de C. V. (formerly Sempra Management, S. de R. L de C. V.) is engaged in providing administrative, pay roll and operative services to others subsidiaries in the group.

k. Energía Costa Azul, S. de R. L. de C. V. and subsidiary (collectively "ECA"), own and operate an LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, México.

   During 2007, ECA obtained all necessary operating permits from Mexican regulatory agencies, and commenced its operations in May 2008.

   In December 2009, ECA completed construction of a nitrogen injection facility to allow customers to deliver LNG with a greater range of gross heating value. The nitrogen injection facility produces nitrogen that can be mixed with natural gas when it is necessary to lower the heating content to meet pipeline gas quality standards in Mexico and the U. S.

   ECA entered into a 20-year firm storage service agreement with Sempra LNG International, LLC ("SLNGI", a related party in U.S.) through Sempra LNG Marketing México, S. de R. L. de C. V. ("Sempra LNG Marketing México", which is also known as LNG Marketing) for which SLNGI is committed to lease 50% of the total storage capacity of the LNG Terminal. The agreement commenced in May 2008 after the LNG Terminal was placed in service. In April 2009, the shipper assigned the remaining contracted storage capacity to other independent third parties.

l. Sempra LNG Marketing México provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, Sempra LNG Marketing México began operation jointly with ECA. Up to that date, the activities of Sempra LNG Marketing México were primarily focused on obtaining necessary permits.

   On November 2009, Sempra LNG Marketing México entered into an agreement with SLNGI, whereby SLNGI agreed to deliver and sell LNG cargoes to Sempra LNG Marketing México from startup date of the LNG Terminal. Accordingly, Sempra LNG Marketing México entered into transportation and storage capacity service agreements to commercialize the LNG.

   Thereafter, on January 1, 2013, SLNGI and Sempra LNG Marketing Mexico entered into a new 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 at the delivery point and, in the other hand; Sempra LNG Marketing Mexico will take LNG in order to meet its purchase commitments.

1.3.2 *Power segment.* The Company's subsidiaries allocated to this segment are:

a. Termoeléctrica de Mexicali, S. de R. L. de C. V. and subsidiaries (collectively "TDM") are engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate electricity for exportation through an independent power production project.

On January 1, 2013 (with effective date on 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 border with México, and SGEN provides marketing, scheduling, and dispatch services for TDM.

b. Controladora Sierra Juárez, S. de R. L. of C. V. and subsidiaries (collectively "ESJ") are developing a wind power plant in Baja California, Mexico since 2007 that could produce up to 1,200 MW of renewable wind power at full build-out (see Note 1.2.4. subparagraph b). During April 2011, SDG&E, entered into a 20-year contract to import up to 156 MW of renewable power supplied from the first phase of these project. The first phase of the project is expected to require an estimated investment of approximately $325 million.

1.3.3. *Corporate segment* holds interest in pipeline, distribution, regasification, natural gas sale, and power generation operations in Mexico.

a. IEnova is essentially a holding company that invests in affiliated companies in the electricity and natural gas industries.

b. Sempra Servicios Energéticos, S. de R. L. de C. V. ("SSE") is a holding company that invests in affiliated companies in the electricity and natural gas industries.

2. Significant accounting policies

2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

a) Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b) Fair value

Fair value is the 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

2.3 Reclassifications

The consolidated financial statements for the year ended December 31, 2012 have been reclassified in the Value Added Tax receivable and Other payable taxes to conform to the presentation for the year ended December 31, 2013.

	Balances originally reported	Retrospectively reclasified balances	Increase (decrease) due to reclasifications
Value Added Tax receivable	$ -	$ (12,626)	$ 12,626
Other assets	23,029	12,626	10,403
Other payable taxes	$ -	$ (5,790)	$ 5,790
Other liabilities	8,307	5,790	2,517

2.4. *Consolidation of financial statements*

2.4.1. *Consolidation basis*

The consolidated financial statements of IEnova incorporate the financial statements of all entities where it maintains control (its subsidiaries). An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Company.

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

IEnova's ownership percentage in the equity of its subsidiaries for the year ended December 31, 2013 is shown below:

Company	Ownership percentage
Gas Segment:	
Ecogas México, S. de R. L. de C. V. ("ECO")	100.00
PE International Canadá, S. de R. L. de C. V. ("PEI")	98.99
Servicios DGN de Chihuahua, S.A. de C.V. ("SDGN")	100.00
Gasoducto Rosarito, S. de R. L. de C. V. ("GRO")	100.00
Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("TGN")	100.00
Sempra Gasoductos México, S. de R. L. de C. V. ("Sempra Gasoductos México")	100.00
Sempra Compresión México, S. de R. L. de C. V. ("SCM")	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V. ("GAP")	100.00
Sempra Gasoductos Holding, S. de R. L. de C. V. ("SGH")	100.00
IEnova, S. de R. L. de C. V.	100.00
Energía Costa Azul, S. de R. L. de C. V. y subsidiaria ("ECA")	100.00
Sempra LNG Marketing México, S. de R. L. de C. V. ("Sempra LNG Marketing México")	100.00
Power segment:	
Termoeléctrica de Mexicali, S. de R. L. de C. V. y subsidiarias ("TDM")	100.00
Controladora Sierra Juárez, S. de R. L. de C. V. y subsidiarias ("ESJ")	99.99
Corporate segment:	
Sempra Servicios Energéticos, S. de R. L. de C. V. ("SSE")	99.87

Pursuant to a resolution of the general ordinary members' meeting on September 10, 2012 ("increasing of membership interest date"), the variable equity of IEnova was increased by $5,861,622,509 Mexican Pesos, through the contribution by the Parent company of its membership interest in Sempra Gasoductos México as of that date. As a result of such membership increase, IEnova obtained ownership and control of Sempra Gasoductos México.

The contribution of Sempra Gasoductos México had no effect in the Company's financial position, operating results or cash flows since the transaction was accounted for on a retrospective basis since both entities where under the common control of Sempra Energy.

2.5 Classification of costs and expenses

Costs and expenses presented in the consolidated statements of profit and loss were classified according to their function because this is the practice of the sectors to which the Company belongs.

2.6 Cash and cash equivalents

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months as of their acquisition date, and which are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the consolidated statements of profit and loss.

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. Inventory of natural gas

Liquefied natural gas inventory is recorded at the lower of cost or net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to sell.

2.9. Leasing

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.9.1 The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.9.2 The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company general policy on borrowing costs (see Note 2.14.). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10. Interests 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 and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other comprehensive income (“OCI”) of the joint venture. When the Company’s share of losses of a joint venture exceeds the Company’s interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company’s net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39, *Financial instruments: recognition and measurement*, are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company’s investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Company reduces its ownership interest in a joint venture but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in OCI regarding that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

The goodwill generated in the acquisition of the investment of the Company in a joint venture, is recognized considering Company's accounting policies regarding goodwill (see Note 2.11), and will be incorporated in the equity method for presentation and subsequent impairment testing.

When the Company realizes transactions with joint ventures, non- realized profit and losses are eliminated at the Company's ownership percentage in the joint venture.

2.11. Goodwill

Goodwill arising from the acquisition of Sempra Gasoductos México by Sempra Energy, and subsequent to Company's contribution (See Note 2.4.1.), has been included in the consolidated financial statements as it forms part of Company's net investment in such entity, and is carried at cost as established at the date of acquisition.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, on October 1, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit and loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.12. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the consolidated statements of financial position date. The CAs' cash inflows and outflows are classified as an operating activity in the consolidated statements of cash flows.

2.13. Property, plant and equipment

Property, plant and equipment are presented in the consolidated statements of financial position and recorded at acquisition cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Acquisition costs include labor, material costs and construction service agreements.

The Company recognizes decommissioning liabilities for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made.

Property, plant and equipment include major expenditures for improvements and replacements parts, which extend useful lives or increase capacity. Routine maintenance costs are expensed as incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. The buildings and land, equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write-off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.14. Impairment of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.15. 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 Company borrows funds generally 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.

The Company capitalizes on the synthetic interest rates obtained from the contracting of derivatives that have been designated and are effective as hedge accounting. When these hedges are designated as cash flow hedges, the gains and losses recognized in OCI items are recycled to the profit and loss statement over the life of the depreciable asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.16. Employee benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee’s most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The remeasurements, which include the actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the statement of financial position charged to the credit that is recognized in the consolidated statements of profit and loss and OCI in the period in which they are incurred. The remeasurements recognized 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 and loss. The Company presents net interest cost within finance costs in the consolidated statements of profit and loss. The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as of the end of each reporting period.

Employee Statutory Profit Sharing (PTU, by its initials in Spanish). PTU is recorded in the profit or loss of the year when is caused and is included in administrative and other expenses balance, in the consolidated statements of profit and loss.

The Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus 20 days wages for each year of service payable upon involuntary termination without just cause. The Company records a liability for such severance benefits when the event that gives rise to an obligation occurs upon the termination of employment as termination benefits result from either Company's management's decision to terminate the employment or an employee's decision to accept an offer of benefits in exchange for termination of employment.

2.17. Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.18. 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 or loss) 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 or loss.

2.18.1. 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.

2.18.1. Fair value

Fair value is defined in subparagraph b of Note 2.2.

2.19. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.19.1. Financial assets at FVTPL

Financial assets are classified, other than held-for-trading, 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 natural gas and electric fuel and in other gains and losses line items in the consolidated statement of profit and loss. Fair value is determined in the manner described in Note 20.

2.19.2 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.

2.19.3 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 related parties) 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.

2.19.4 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2.19.5 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.

In the conclusion of a financial asset entirety, the difference among the book value of the asset and the sum of the price received and receivable and profit or loss that has been recognized in the consolidated statements of profit and loss and OCI.

2.20. Financial liabilities and equity instruments

2.20.1. Classification as debt or equity

Debt and equity instruments issued by a Company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.20.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

2.20.3 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.20.3.1 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 principally for the purpose of repurchasing it in the near term; or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of making profits in the short term; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial liabilities as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statements of profit and loss. Fair value is determined as described in Note 20.

2.20.3.2. Other financial liabilities

Other financial liabilities (including borrowings, due to related parties, trade payables and customers deposits) are subsequently measured at amortized cost using the effective interest method.

2.20.3.3 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 or loss.

2.21. 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 20.

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.

2.21.1. 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.

2.21.2 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 exemption the "own use"(or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

2.22. Hedge accounting

The Company may designate certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives as hedges.

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.

2.22.1. 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 or loss.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statements of profit and loss as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

2.22.2 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.23. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.23.1 Current tax

Income tax and the Business Flat Tax ("ISR" and "IETU", respectively, by their initials in Spanish) are recorded in the results of the year when they are incurred.

Taxable profit differs from profit as reported in the consolidated statements of profit and loss because of items of income or expense that are taxable or deductible in other years, items that are not taxable or deductible, and items that are taxable or deductible but do not affect accounting results. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Tax on Assets ("IMPAC", by its initials in Spanish) paid through 2007 that is expected to be recovered was recorded as an advanced payment of ISR and is classified in the consolidated statements of financial position within other assets.

2.23.2 Deferred taxes

Deferred taxes are presented as long-term and calculated by applying the tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry forwards and certain tax credits. Deferred tax assets are generally recognized for tax loss carryforwards as well as deductible temporary differences to the extent that it is probable that taxable profits will be available against which those tax losses or deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries , and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.23.3 Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity, respectively.

Under the tax legislation in effect during 2013, the entities had to pay the greater of ISR or IETU. If IETU was payable, the payment was considered final; not subject to recovery in subsequent years.

Under the framework discussed in the paragraph above and due to Company's management estimated that the tax payable in future years would be IETU for certain subsidiaries, as of December 31, 2012, the deferred tax effects were determined on the IETU basis.

As of December 31, 2013, given that the IETU Law was repealed, (refer to Note 1.2.5, subparagraph a) the Company wrote off its deferred IETU tax asset, recognizing the effect in its consolidated statements of profit and loss.

2.24 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates; value added tax (Impuesto al Valor Agregado, "IVA" by its initials in Spanish) and other sales-related taxes.

2.24.1 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 rewards 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 measured reliably.

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.
- Power generation revenues are recognized when generated power is delivered.

2.24.2 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

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.
- Revenues and costs related to administrative and other services are recognized when such services are rendered according to the related service contracts.

2.24.3 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.

2.24.4 Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.1.

2.25 Foreign currencies

The Company's functional currency is the U.S. Dollar, except for ECO and SDGN in its Gas segment, which is the Mexican peso.

In preparing the financial statements of each individual subsidiary of the Company, transactions in currencies other than the subsidiaries' functional currency (U.S. Dollar or Mexican peso) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in OCI and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U.S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in OCI and accumulated in equity.

On the disposal of an operation with a Mexican peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit or loss.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 3.2 below), that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

3.1.1 Finance lease of natural gas compression station

The Company has a long-term natural gas compression arrangement with PGPB. The contract provides PGPB with the right to use 100% of the compression station's output for 20 years, with an additional five years, in return for fixed capacity payments.

Management has determined that the arrangement should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

3.2.1 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, 2013, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. U. S. Generally Accepted Accounting Principles ("U.S. GAAP") provide specific guidance on this matter, but there is no equivalent guidance in IFRSs.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRSs. Recently, the IASB as a part of its project of this matter, on January 30, 2014, issued provisionally IFRS 14, *Regulatory deferral accounts*. 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.

3.3.1 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 and:

- information available through the date the consolidated financial statements are issued indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events; and
- the amount of the loss can be reasonably estimated.

The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

3.4.1 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.

3.2 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 at Note 2.13. above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. See Note 12.1 for useful lives of property, plant and equipment.

3.2.2. Impairment of long-lived assets (property, plant and equipment)

At the end of each period, the Company reviews the carrying amount of tangible and intangible assets to determine if there is any indication that these assets have suffered any impairment loss. If there is any indication, 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 it belongs such asset. When it is possible to identify a reasonable and consistent basis of distribution, corporate assets are also allocated to the individual cash generating units, or otherwise, are allocated to the smaller set of cash generating units for which a reasonable and consistent distribution base can be identified.

Intangible assets with an indefinite useful life or not yet available for use, are subject for impairment testing at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate before taxes that reflects the current assessment of the market regarding to the value of money over time and the specific risks to the asset for which the future cash flow estimates are set.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. As of December 31, 2013, the Company has not identified any indication for impairment on its property, plant and equipment.

3.2.3. 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.

3.2.4. Decommissioning liabilities

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.

3.2.5. Valuation of financial instruments (fair value measurement)

As described in Note 20, 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 20 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3.2.6. Purchase price allocation in the acquisition of Sempra Gasoductos México

Purchase price allocation adjustment requires most identifiable assets acquired and liabilities assumed or incurred to be measured at fair value. Therefore, a fair value measurement was determined based on the assumptions that market participants would use in pricing the acquired assets or assumed liabilities of Company's investment in Sempra Gasoductos México.

3.2.7. 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 or loss.

3.2.8. Recoverability of deferred tax assets

As mentioned in Note 21, 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.

3.2.9. Calculation basis of deferred income tax

Until 2012, based on financial projections, the Company concluded that it essentially would pay ISR. Therefore, the Company recognized deferred income tax based on ISR. From 2013, deferred income tax is calculated only based on ISR due to the repeal of IETU Law.

4. Cash and cash equivalents

Cash and cash equivalents at the end of the reporting period are comprised as follows:

	12/31/13	12/31/12
Cash and bank balances	$ 92,333	$ 56,125
Short term investments classified as cash equivalents	11,547	28,948
	$ 103,880	$ 85,073

5. Trade and other receivables – Net

	12/31/13	12/31/12
Trade receivables	$ 49,216	$ 45,875
Allowance for doubtful debts (a)	(202)	(193)
	49,014	45,682
Other receivables	15,021	33,286
	$ 64,035	$ 78,968

(a) For the Gas segment, in ECO, the Company has recognized an allowance for doubtful accounts of 80% against all receivables outstanding between 180 and 269 days and 100% against all receivables outstanding over 270 days, based on historical experience. Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

5.1 Age of receivables that are past due but not impaired

	12/31/13	12/31/12
31-120 days	$ 18	$ 10
121-180 days	7	3
181-270 days	4	2
Total	$ 29	$ 15
Average age (days)	56	62

5.2 Movement in the allowance for doubtful debts

	12/31/13	12/31/12
Balance as of beginning of the year	$ (193)	$ (474)
Impairment losses recognized on receivables	(57)	(49)
Amounts written off during the year as uncollectible	47	365
Foreign exchange translation gains and losses	1	(35)
Balance as of end of the year	$ (202)	$ (193)

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 20.9. for more details of Company's credit risk management and concentration of credit risk assessment.

5.3 *Age of impaired trade receivables*

	12/31/13	12/31/12
181-270 days8	$ (16)	$ (9)
Over 270 days	(186)	(184)
Total	$ (202)	$ (193)

6. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

6.1 *Trading transactions*

During the year, Company entities entered into the following trading transactions with related parties that are not members of the Company:

	Revenues Year ended	
	12/31/13	12/31/12
Sempra Generation ("SGEN")	$ 168,340	$ 127,656
SLNGI	90,842	107,754
Sempra International LLC ("Sempra International")	1,248	55
Sempra Global	434	1,739
Southern California Gas Company ("SoCalGas")	143	150
Sempra LNG	-	46

	Cost of revenue, administrative and other expenses Year ended	
	12/31/13	12/31/12
SLNGI	$ 224,195	$ 195,593
SGEN	31,953	59,072
Sempra U. S. Gas & Power, LLC ("Sempra U. S. Gas & Power")	7,144	-
Sempra International	6,759	6,015
Sempra Services Company, S. de R. L. de C. V. ("Sempra Services Company")	1,745	1,666
SoCal Gas	1,402	1,137
Sempra Servicios México, S. de R. L. de C. V. ("Sempra Servicios México")	694	1,378
Sempra Midstream, Inc. ("Sempra Midstream")	556	532
Sempra Global	65	358
SDG&E	28	-

	Finance costs Year ended	
	12/31/13	12/31/12
Sempra Oil Trading Suisse (“SOT Suisse”)	$ 1,494	$ 2,835
Sempra Chile, S. A. (“Sempra Chile”)	903	7,049
Sempra Energy International Holdings, N. V. (“SEIH”)	350	75
Sempra Global	7	392
SGEN	7	18
Sempra Services Company	1	2

	Interest income Year ended	
	12/31/13	12/31/12
Sempra Servicios México	$ 3	$ 24

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties Year ended	
	12/31/13	12/31/12
SGEN	$ 24,741	$ 28,822
Sempra International	119	-
Sempra Global	-	124
	$ 24,860	$ 28,946

	Amounts due from related parties Year ended	
	12/31/13	12/31/12
SLNGI	$ 3,031	$ 8,011
Sempra Services Company (a)	291	331
Sempra Servicios México	181	668
SoCalGas	106	121
Sempra Midstream	46	-
SEIH (b)	-	83,300
Sempra International	-	822
Sempra Services Company (short-term loans)	-	21
Sempra LNG	-	181
	$ 3,655	$ 93,455

(a) During 2012, the Company received short-term loans from Sempra Services Company for $200; such loan was paid in January 2013. The loans bore variable interest based on the 30-day London Interbank Offered Rate (“LIBOR”) plus 200 basis points (“bps”) (an average annual rate 5.168% and 2.23%, during 2013 and 2012, respectively).

(b) During 2012, the Company received short-term loans from SEIH for $86.1 million, which were fully paid during 2013 (refer to Note 1.2.2.). During 2013, the Company paid capital and interest for $85,800 and $350, respectively. The loan bore variable interest at the six-month LIBOR plus 250 bps (average annual rate of 3.12% during 2013 and 2012).

Sales and purchases of goods and services to related parties were in-line with transfer pricing rules.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given nor received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect to the amounts owed by related parties.

Included in the trading transactions are administrative services from affiliates of $8,823 and $26,725 for 2013 and 2012, respectively, which were charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

6.2 Loans to related parties

	12/31/13	12/31/12
Sempra Servicios México	$ 231	$ 416
Sempra Services Company	100	-
	$ 331	$ 416

There are no loans granted to the Company's key management personnel.

(a) During 2012, the Company provided loans to Sempra Servicios México of $412. The amount was due on January 31, 2013; and bore variable interest based on the Mexican Interbank Equilibrium Interest Rate ("TIIE", by its initials in Spanish) plus 178 bps (an average of 6.57% during 2013).

6.3 Loans from related parties

	12/31/13	12/31/12
SOT Suisse(a)	$ 38,460	$ 91,660
SGEN (b)	433	143
Sempra Chile (c)	-	215,000
Sempra Global (d)	-	25,000
	$ 38,893	$ 331,803

(a) During 2013 the Company paid to capital and interest in the amount of $53.2 and 1.9 million respectively. Also, during 2012 the Company paid interest of $3.6 million. The loans mature in March 2017 and bear variable interest based on the previous month midterm annual Applicable Federal Rate in U.S. ("AFR") plus 200 bps (an average annual rate of 3.27% and 3.04% in 2013 and 2012, respectively).

(b) During 2013 and 2012, the Company received long-term loans from SGEN of $737 and $21, respectively. During 2013 and 2012, the Company made payments of capital for $454 and $587, respectively. The loans matured on December 31, 2027 and bore variable interest based on the previous month midterm annual AFR plus 200 bps (an average annual rate of 2.7% during in 2013 and 2012).

(c) During 2012, the Company received a long-term loan from Sempra Chile for $215 million which bore interest of $903; during 2013, such and interest were fully paid (refer to Note 1.2.2.). The loan bore variable interest based on 6-month LIBOR e plus 250 bps (an average annual rate of 3.006% during 2013).

(d) The Company received loans from Sempra Global during 2012 of $122 million. During 2013, such loan and interests were fully paid by the Company (refer to Note 1.2.2.) During 2012, the Company made payments of capital and interest for $125 million and $0.4 million, respectively. The loans had maturities until December 15, 2027 and bore variable interest based on the previous month midterm annual AFR (an average annual rate of 0.98% during 2013).

6.4 Compensation of key management personnel

The Company's operational and financial key decisions were made by the Parent's management. Intercompany charges from U.S. affiliates have been made to allocate the remuneration of directors and key executives. During 2012, the Company began to hire directly certain of its key management positions, the compensation paid to key management positions was $3,802 and $1,830, for the years ended in December 31, 2013 and 2012, respectively.

7. Inventory of natural gas

	12/31/13	12/31/12
Liquefied natural gas	$ 3,836	$ 9,273

The cost of inventories recognized within cost of revenues was $230,966 and $196,682 for the years ended December 31, 2013 and 2012, respectively.

The cost of revenues recognized as expense was $ - and $1,779 for years ended December 31, 2013 and 2012, respectively, due to write-downs of inventory to net realizable value. Previous write-downs have not been reversed.

8. Finance lease receivables

	12/31/13	12/31/12
Current finance lease receivables	$ 81	$ 56
Non-current finance lease receivables	14,619	14,700
	$ 14,700	$ 14,756

Due to materiality considerations, the Company's management decided to present the current receivable amount within the non-current portion.

8.1. 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.

8.2. Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	12/31/13	12/31/12	12/31/13	12/31/12
Not later than one year	$ 5,136	$ 5,136	$ 81	$ 56
Later than one year and not later than five years	22,458	22,458	1,264	1,264
More than five years	39,376	44,512	13,355	13,436
	66,970	72,106	14,700	14,756
Less: unearned finance income	(52,270)	(57,350)	n/a	n/a
Present value of minimum lease payments receivable	14,700	14,756	14,700	14,756
	$ 14,700	$ 14,756	$ 14,700	$ 14,756

No residual values of assets leased under finance lease at the end of the reporting period are estimated.

The interest rate inherent in the finance lease is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 34.48% per annum for 2013 and 2012.

The receivable under finance lease balance as of December 31, 2013 is not neither past due nor impaired.

9. Other assets

	12/31/13	12/31/12 (Note 2.3.)
Prepayments	$ 7,694	$ 5,676
Accrued interest receivable	7,286	-
IMPAC recoverable	5,120	4,261
Carbon allowances (short-term portion) (Note 17)	4,778	-
Pipeline interconnection rights	4,973	1,629
Land leases	371	70
Natural gas imbalance	207	396
Guarantee deposits	187	264
	$ 30,616	$ 12,296
Current	$ 25,457	$ 10,403
Non - current	5,159	1,893
	$ 30,616	$ 12,296

10. Joint venture

The Company has a 50% equity ownership in the members' equity of GdC, an entity jointly controlled entity with PGPB. GdC operates two natural gas pipelines, a natural gas compression station, a system of propane in Northern Mexico, in the States of Chihuahua, Tamaulipas and Nuevo Leon, Mexico; and a station for gas storage in the State of Jalisco, Mexico. On December 31, 2013, GdC maintains construction in process related to Los Ramones I and Los Ramones Norte (refer to subparagraphs c and d of Note 1.2.4.) and Ethane pipeline projects (refer to subparagraph o of Note 31.2.). As of December 31, 2013, there has been no change in the Company's ownership or voting interests in this joint venture since its acquisition.

A summary of GdC's consolidated financial statements is as follows:

	12/31/13	12/31/12
Cash and cash equivalents	$ 98,869	$ 74,527
Investments in short-term investments	12,805	151,766
Other current assets	47,713	29,343
Current assets	159,387	255,636
Property, plant and equipment	508,023	349,925
Other non-current assets	476	901
Non-current assets	508,499	350,826
Total assets	$ 667,886	$ 606,462
Current liabilities	$ 16,345	$ 20,684
Non-current liabilities	48,853	52,467
Total liabilities	65,198	73,151
Total members' equity	$ 602,688	$ 533,311
Share of members' equity	$ 301,345	$ 266,656
Goodwill and indefinite lived intangible assets	64,943	64,943
Carrying amount of investment in joint venture	$ 366,288	$ 331,599

	Year ended	
	12/31/13	12/31/12
Revenue	$ 147,478	$ 139,196
Cost and expenses	(51,445)	(49,492)
Interest expense, net	(396)	(1,337)
Income tax expense	(26,260)	(13,479)
Net and comprehensive income	$ 69,377	$ 74,888
Share of profits of joint venture	$ 34,689	$ 37,444

(a) On March 7, 2013, GdC performed an advance repayment of its long-term debt to Export-Import Bank of the United States for approximately $19 million.

(b) On December 5, 2013 GdC entered into a credit agreement for $475 million with BBVA Bancomer, Institution de Banca Múltiple, Grupo Financiero BBVA Bancomer, Bank of Tokyo Mitsubishi UFJ, Ltd., Mitzuho Bank and Norddeutsche Landesbank, for the purpose of funding the Los Ramones I project. The funding is contracted for a term of 13 years, with quarterly payments of principal, and bearing interest equivalent to 90 day LIBOR plus 200 to 275 bps from the anniversary date of the credit agreement; this funding is guaranteed with collection rights of certain GdC projects. The withdrawals of this credit commenced in 2014.

Also, on January 22, 2014, GdC entered into a derivative financial instrument for hedging the interest rate risk on the credit agreement above mentioned at a rate of 2.63%.

11. Goodwill

	12/31/13	12/31/12
Cost	$ 25,654	$ 25,654

There are no accumulated impairment losses.

11.1. Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to Sempra Gasoductos México's cash-generating unit, which is included in the Gas segment.

The recoverable amount of this cash-generating unit is determined based on a 10-year discounted cash flow ("DCF") analysis of Sempra Gasoductos México's projected results. The DCF for 2013 and 2012 was calculated based on a long-term unlevered cash flow forecast using a discount rate of 9%, which was the same rate used at the acquisition date.

There are no significant changes in Sempra Gasoductos México's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management's initial projections, b) the changes on the macroeconomic indicators have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for Mexico), the changes in the regulatory environment have not had adverse effect on the Company's operations and 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.

12. Property, plant and equipment – Net

	12/31/13	12/31/12
Carrying amounts of:		
Buildings and plants	$ 2,077,478	$ 2,072,258
Equipment	52,960	43,729
Other assets	27,032	27,923
	2,157,470	2,143,910
Accumulated depreciation and amortization	(442,043)	(381,890)
Land	74,421	74,421
Properties under construction	423,989	48,298
	$ 2,213,837	$ 1,884,739

Cost	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Balance as of January 1, 2012	$ 74,233	$ 2,047,554	$ 43,118	$ 15,900	$ 22,943	$ 2,203,748
Additions	185	9,349	559	32,398	4,806	47,297
Disposals	-	(553)	(46)	-	(511)	(1,110)
Effect of foreign currency translation	3	11,598	98	-	685	12,384
Revisions and additions to decommissioning liability	-	4,310	-	-	-	4,310
Balance as of December 31, 2012	$ 74,421	$ 2,072,258	$ 43,729	$ 48,298	$ 27,923	$ 2,266,629
Additions	-	16,335	11,097	375,848	2,856	406,136
Disposals	-	(613)	(1,855)	-	(3,684)	(6,152)
Effect of foreign currency translation	-	(931)	(11)	(157)	(63)	(1,162)
Revisions and additions to decommissioning liability	-	(9,571)	-	-	-	(9,571)
Balance as of December 31, 2013	$ 74,421	$ 2,077,478	$ 52,960	$ 423,989	$ 27,032	$ 2,655,880

Accumulated depreciation	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Balance as of January 1, 2012	$ -	$ (300,691)	$ (5,002)	$ -	$ (12,096)	$ (317,789)
Eliminated on disposals of assets	-	22	45	-	482	549
Depreciation expense	-	(58,046)	(1,052)	-	(2,101)	(61,199)
Effect of foreign currency translation	-	(2,365)	(13)	-	(1,073)	(3,451)
Balance as of December 31, 2012	$ -	$ (361,080)	$ (6,022)	$ -	$ (14,788)	$ (381,890)
Eliminated on disposals of assets	-	41	18	-	702	761
Depreciation expense	-	(56,044)	(1,136)	-	(3,833)	(61,013)
Effect of foreign currency translation	-	277	1	-	50	328
Other	-	(758)	62	-	467	(229)
Balance as of December 31, 2013	$ -	$ (417,564)	$ (7,077)	$ -	$ (17,402)	$ (442,043)

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 2013 are comprised mainly of additions to construction in process, related to the Sonora Pipeline and Energía Sierra Juárez Wind projects (see subparagraphs a and b of Note 1.2.4.).

The Company capitalized borrowing costs on qualifying assets of $ 12,811 and $76 for the years ended December 31, 2013 and 2012, respectively.

12.1 Useful lives of property, plant and equipment

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility [1]	5-45
Pipelines system for transportation and distribution of natural gas [1]	34-50
Plant and equipment for generation of electricity [1]	37
Fiber optic network [1]	5-20
Leasehold improvements [2]	3-10
Machinery and other equipment [2]	3-10
Other assets [2]	3-20

[1] Useful lives related to Plant and equipment category
[2] Useful lives related to Other assets category

13. Trade and other payables

	12/31/13	**12/31/12**
Trade payables	$ 48,573	$ 24,388
Other miscellaneous payables	886	60
	$ 49,459	$ 24,448

The average credit periods on purchases of goods and services are between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

14. Employee benefits

14.1 Defined contribution component

The Company provides a defined contribution plan for all permanent full-time employees in Mexico. Employees that leave the Company obtain their employee contributions according to the following vesting schedule: a) Basic Contribution: 100% immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100% in case of death or disability, and in case of voluntary termination according with the Company policy.

14.2 Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in Mexico. Under the plans, the employees are entitled to retirement benefits varying between 55% and 100% of their final salary upon reaching the retirement age of 65. No other post-retirement benefits are provided to these employees.

14.3 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.

14.3.1 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	
	12/31/13	**12/31/12**
Discount rates	8.00%	7.25%
Expected rates of salary increase	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%
Exchange rate	$ 12.78	$ 13.01

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.

	Year ended	
	12/31/13	**12/31/12**
Current service cost recognized in administrative and other expenses	$ 341	$ 208
Interest on obligation recognized in finance costs	167	113
Actuarial (gains) losses recognized in OCI	179	414
Benefits paid recognized in administrative and other expenses	-	(8)

The amount included in the consolidated statements of financial position arising from the Company's obligation related to its defined benefit plans, and changes in the present value of the defined benefit obligation in the current year, were as follows:

	Year ended	
	12/31/13	**12/31/12**
Opening defined benefit obligation	$ 2,153	$ 1,381
Current service cost	330	253
Interest cost	(2)	113
Actuarial gains	178	414
Exchange differences on plans maintained by Mexican peso functional currency entities	52	-
Benefits paid	(27)	(8)
Ending defined benefit obligation	$ 2,684	$ 2,153

15. Other financial liabilities

	12/31/13	12/31/12
Accrued interest payable (a)	$ 12,218	-
Customer deposits	635	616
Borrowing (b)	-	989
	$ 12,853	$ 1,605

(a) Relates to accrued interest payable on long-term debt (see Note 19).

(b) On November 7, 2011, the Company signed a funding agreement with BP Wind Energy North America Inc., for a credit line in the aggregate principal amount up to $1,106. The availability period of the line of credit was originally until January 31, 2012. Interest would accrue on any outstanding amount of advances thereunder from time to time, calculated at a rate of interest per annum equal to, for any given month, the 30-day LIBOR plus 500 bps (average annual rate of 5.24% for 2012). As of December 31, 2012, the accrued interest was $51 and the Company paid interest in the amount of $26. During 2013, the Company fully paid this loan.

16. Other liabilities

	12/31/13	12/31/12 (Note 2.3.)
Wages and benefits payable	$ 8,869	$ 2,517
Short-term carbon allowances (Note 17)	4,778	-
Other current liabilities	2,880	-
	$ 16,527	$ 2,517

17. Carbon allowances

During 2013, the California Air Resources Board ("CARB") established the "Cap-and-Trade" program as a strategy for reducing the greenhouse gas ("GHG") emissions; such program includes the obligation for acquiring carbon allowances by an amount equal to GHG emissions in the period, through the mechanisms outlined in this program. Under the Cap-and-Trade program, TDM is subject to this extraterritorial regulation, despite being located in Baja California, Mexico since their end users are located in California, U.S.

As of December 31, 2013, the carbon allowances liabilities balance in the consolidated statements of financial position is $15,929, which is allocated as non-current liabilities for $11,151 and $4,778 as current liabilities (within Other current liabilities balance); these amount are charged to Cost of revenue. Also, as of December 31, 2013 the Company has recognized assets totaling $16,362 ($11,584 as non-current assets and $4,778 as current assets, within Other current assets balance) associated with the purchases of carbon allowances that have been acquired for the purposes of complying with the obligations described in the preceding paragraph.

18. Provisions

	12/31/13	12/31/12
Decommissioning liabilities (a)	$ 26,430	$ 34,820
Other (b)	1,945	2,788
	$ 28,375	$ 37,608

	12/31/13	12/31/12
Current	$ 1,945	$ 2,788
Non-current	26,430	34,820
Total provisions	$ 28,375	$ 37,608

18.1. Reconciliation of provisions

	Decommissioning liabilities	Other	Total
Balance as of January 1, 2012	$ 28,862	$ 3,080	$ 31,942
Additional provisions recognized	1,906	-	1,906
Payments and other decreases in provisions recognized	-	(327)	(327)
Unwinding of discount and effect of changes in the discount rate	4,052	-	4,052
Effect of foreign currency exchange	-	35	35
Balance as of December 31, 2012	$ 34,820	$ 2,788	$ 37,608
Additional provisions recognized	1,432	1,945	3,377
Payments and other decreases in provisions recognized	-	(2,788)	(2,788)
Unwinding of discount and effect of changes in the discount rate	(9,822)	-	(9,822)
Balance as of December 31, 2013	$ 26,430	$ 1,945	$ 28,375

(a) For tangible long-lived assets, the Company records 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 the amount of the obligation can be made. The Company also records a liability if a legal obligation to perform an asset retirement exists and can be reliably estimated. The Company records the estimated retirement cost over the life of the related asset by depreciating the present value of the obligation (measured at the time of the asset's acquisition) and accreting the discount until the liability is settled. The discount rates used by the Company were 4.9798% and 4.1130% as of December 31, 2013 and 2012, respectively.

(b) Other provisions include a liability for an onerous contract that represent the present value of the future losses that the Company is expected to incur under one of its service contracts. Since the asset is underutilized, it was determined that the income approach based on the Company’s economic model utilizing a DCF analysis was appropriate to measure the provision calculation using a discount rate of 10%. The amount of the provision as of December 31, 2012 was $2,536.

19. Long-term debt

	12/31/13	12/31/12
CEBURES fixed rate (a)	$ 298,245	$ -
CEBURES variable rate (b)	99,415	-
	397,660	-
Cost of debt	(3,004)	-
	$ 394,656	$ -

On February 14, 2013, the Company entered into two public placements of CEBURES as follows:

(a) The first placement was for $306,209 ($3.9 billion Pesos) bearing interest at a rate of 6.30%, with half-yearly payment of interest; maturing in 2023. As of December 31, 2013, the balance of this debt is $298,245.

(b) The second placement was for $102,070 ($1.3 billion Pesos) bearing interest at variable rate based on TIIE plus 30 bp, with monthly payments of interest; maturing in 2018. The average annual rate as of December 31, 2013 was 4.52%. As of December 31, 2013, the balance of this debt is $99,415.

Cross-currency and interest rate swaps. On February 15, 2013, regarding the placements of CEBURES, the Company executed cross-currency and interest rate swap contracts for hedging its exposure to the payment of its liabilities in Pesos:

(a) For debt maturing in 2023, the Company swapped variable rate in Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average rate, in U.S. Dollars through this swap was 4.1240%.

(b) For debt maturing in 2018, the Company swapped fixed rate in Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average rate, in U.S. Dollars through this swap was 2.6575%.

The swaps' total notional value is $408,279 ($5.2 billion Pesos).

These contracts have been designated as cash flow hedges.

20. Financial instruments

20.1 Capital management

Decisions on capital management for IEnova are made by Parent's directors 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 2012, all funding for major capital projects was received from the Parent and, as of December 31, 2013, projects were funded through the resources obtained from the CEBURES and IPO (refer to Notes 1.2.2. and 1.2.3., respectively). The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends.

The Company is subject to externally imposed capital requirements for its regulated subsidiaries in the gas segment. According to applicable regulations the subsidiaries need to include in their bylaws the requirement to have a minimum fixed capital, without withdrawal rights, equivalent to ten percent (10%) of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its LNG terminal. As of December 31, 2013 and 2012 the Company had complied with the above requirements.

20.2 Categories of financial instruments

	12/31/13	12/31/12
Financial assets		
Cash and bank balances	$ 103,880	$ 85,073
FVTPL		
Held for trading	216,215	5,157
Loans and receivables	89,226	119,720
Financial leasing	14,700	14,756
Financial liabilities		
FVTPL		
Held for trading	$ 63,913	$ 49,882
Amortized cost	499,516	451,311

20.3 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, for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, or when such instruments can be designated as hedges, or when they do not qualify for hedge accounting, but rather qualify as held-for-trading, which is the case for derivative financial instruments and a certain interest rate swap agreement. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

20.4 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
- 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.

As of December 31, 2012, ECO used natural gas derivatives to manage natural gas price risk associated with servicing load requirements. The use of natural gas derivatives was subject to certain limitations imposed by the Company's policy and is in compliance with risk management and trading activity plans that have been filed with and approved by regulators. Any costs or gains/losses associated with the use of natural gas derivatives were considered as commodity costs. Commodity costs are generally passed on to customers as incurred. No asset or liability was recognized regarding the amounts to be passed on to customers in subsequent periods as there was no contractual right or obligation with the customers for reimbursement of such amounts.

20.5 Value at Risk ("VaR") analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95% confidence interval in its VaR calculations. The one-day 95% VaR number reflects the 95% probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day) by risk type	Year ended 12/31/13	Year ended 12/31/12
Interest rate swap	$ 4,061	$ 1,059
Natural gas purchase and sale	31	61
Total VaR exposure	$ 3,887	$ 1,064

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 20.7 below.

20.6 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 markets and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Any residual exposure is monitored as described above.

20.7 Foreign currency risk management

The Company has investments in entities whose functional currency is not the U. S. Dollar; also, it has balances in Mexican Pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to foreign exchange movements.

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	
	12/31/13	12/31/12
U. S. Dollar functional currency subsidiaries	$ 194,573	$ 27,259
Mexican Peso functional currency subsidiaries	34,920	39,473

	Financial liabilities	
	12/31/13	12/31/12
U. S. Dollar functional currency subsidiaries	$ 695,450	$ 13,103
Mexican Peso functional currency subsidiaries	38,188	4,059

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, IVA, ISR, IETU, 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.

	12/31/13	12/31/12	04/15/14
One U.S. Dollar	13.0765	13.0101	13.0493

20.7.1 Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 20.6 above are exposed to the Mexican peso for its U.S. Dollar functional currency subsidiaries and to the U.S. Dollar for its Mexican peso functional currency subsidiaries.

The following table details the Company's profit or loss and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10%, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10% against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10% weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10% against the Mexican Peso. For a 10% weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. Dollar functional currency			Mexican Peso functional currency	
	2013	2012		2013	2012
Profit or loss	$ 31,874	$ (901)	(i)	$ -	$ -
OCI	-	-		(208)	2,154

(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, 2013 and 2012 mainly due to consolidated estimated tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2013and 2012 mainly due to lower intercompany loans with affiliates.

20.8 Interest rate risk management

In 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450 million in U.S. dollars from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of $30 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. At December 31, 2013 and 2012, there is one remaining interest rate swap agreement with a notional amount of $159,287 and $166,948 in U.S. Dollars under which Sempra México receives a variable interest rate (three-month LIBOR) and pays a fixed interest rate of 5.0%. The swap expires on December 15, 2027.

The Company recognizes the change in fair value and the settlements of the interest rate swap in the Other losses and gains line item within the consolidated statements of profit and loss.

The one-year VaR information related to the interest rate swap is included in Note 20.5.

20.8.1 Interest rate swap contracts entered into by the Company's joint venture

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 on December 31, 2013 and 2012 amounted to $- and $13,461, respectively, hedged 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. 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 charge to current earnings.

The Company's management considers the results of the sensitivity analysis for this derivative to be insignificant.

20.9 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 Company considers that have been reserves adequate in order to compliance with third parties.

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.

20.9.1 Concentration of credit risk

GRO and TGN conduct their businesses based upon ongoing evaluations of their customers' financial conditions and certain guarantees, except when such clients qualify for credit based on their long-term debt credit ratings issued by "Standard & Poors" or other credit rating agency in the U. S. or Canada.

GRO believes that the risk arising from its concentration of credit is mitigated since all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

TGN provides transportation services mainly to one sole customer. TGN believes that a concentration of credit risk is mitigated since its customer pays on a monthly basis, otherwise service can be suspended until due amounts are collected.

Sempra LNG Marketing México sells natural gas and provides transportation services to three customers. Sempra LNG Marketing México believes that despite there is a concentration of credit risk, 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 Sempra LNG Marketing México and two other third parties. ECA believes that despite there is a concentration of credit risk, this risk is mitigated based on the creditworthiness of its customers.

Following is a table that shows the Company's revenue concentration by customer:

	Segment	12/31/13	12/31/12
Customer 1 (U.S. related party)	Power	$ 168,340	$ 127,656
Customer 2	Gas	168,963	143,901
Customer 3 (U.S. related party)	Gas	90,842	121,446
Customer 4	Gas	95,571	95,856
Customer 5	Gas	94,981	71,674
Others *		59,139	47,074
		$ 677,836	$ 607,607

* Within Others, there are no customers with greater than 10% of revenue concentration.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result of Company's management does not believe the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2013 and 2012, was $157,928, and $205,052, respectively.

20.9.2 Other credit enhancements

The Company held letters of credit to cover its credit risks associated with its derivative financial assets with industrial customers (Note 20.11.4), amounting to $27 as of December 31, 2012.

20.10 *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, 2012, all funding for major capital projects was received from Parent and, as of December 31, 2013, projects were funded through the resources obtained from the CEBURES and IPO (refer to Notes 1.2.2. and 1.2.3., respectively).

20.10.1 *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	1-2 years	3-5 years	5+ years	Total
December 31, 2013						
Non-interest bearing	-	$ 65,967	$ -	$ -	$ -	$ 65,967
Variable interest rate of long-term debt (Note 19)	4.52	4,526	9,051	9,051	117,176	139,804
Variable interest rate loan from GEN	2.70	12	24	24	540	600
Fixed interest rate of long-term debt (Note 19)	6.30	18,906	37,813	37,813	279,106	373,638
Variable interest rate loan from SOT Suisse's	3.28	1,279	2,558	38,730	-	42,567
		$ 90,690	$ 49,446	$ 85,618	$ 396,822	$ 622,576
December 31, 2012						
Non-interest bearing		$ 36,187	$ -	$ -	$ -	$ 36,187
Variable interest rate loan from Sempra Global's	0.89	25,194	-	-	-	25,194
Variable interest rate loan from SOT Suisse's	2.93	2,723	5,446	94,957	-	103,126
Variable interest rate loan from SEIH	3.14	85,840	-	-	-	85,840
Variable interest rate loan from Sempra Chile	3.14	6,836	220,993	-	-	227,829
		$ 156,780	$ 226,439	$ 94,957	$ -	$ 478,176

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	1-3 years	3-5 years	5+ years	Total
December 31, 2013					
Net settled:					
- Interest rate swaps, exchange rate	$ -	$ (19,226)	$ 2,943	$ 52,428	$ 36,145
- Interest rate swaps	7,326	13,896	2,817	350	24,389
- Natural gas purchase/sale	3,379	-	-	-	3,379
	$ 10,705	$ (5,330)	$ 5,760	$ 52,778	$ 63,913
December 31, 2012					
Net settled:					
- Interest rate swaps	$ 7,666	$ 13,594	$ 9,806	$ 13,444	$ 44,510
- Commodity price swaps	3	-	-	-	3
- Natural gas purchase/sale	3,785	3,189	-	-	6,974
	$ 11,454	$ 16,783	$ 9,806	$ 13,444	$ 51,487

20.11 Fair value of financial instruments

20.11.1 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.

	12/31/13		12/31/12	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial lease receivables	$ 14,700	$ 52,270	$ 14,756	$ 51,936
Financial liabilities				
Financial liabilities held at amortized cost:			-	-
Long debt (Mexican Stock exchange)	394,656	374,899	-	-
Loans from related parties	38,893	36,573	415,124	316,715

20.11.2 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 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.

20.11.3 *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 2.2.

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;
- 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:

	12/31/13	12/31/12
Financial assets at FVTPL		
Short-term investments (Level 1)	$ 207,027	$ -
Derivative financial assets (Level 2)	$ 9,188	$ 5,157
Financial liabilities at FVTPL		
Derivative financial liabilities (Level 2)	$ 63,913	$ 49,882

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.

20.11.4 *Commodities and other derivative positions*

On May 26, 2006, Sempra LNG Marketing México 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 Marketing México and TDM. The agreement includes the nomination and scheduling service of monthly natural gas quantities to be delivered to TDM by Sempra LNG Marketing México from September 2009 through September 2014 with a notional amount of 70,000 million British Thermal Units ("MMBtus") per day. In the agreement between JPM and TDM, settlement is based on the Southern California Index ("SOCAL Index") price. In the agreement between JPM and Sempra LNG Marketing México, settlement is based on the SOCAL Index price minus a discount. These agreements are 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, 2012, the notional amounts of the outstanding positions were 6,000 MMBtus, respectively. As mentioned in Note 20.4, ECO passed through the effects or benefits of such forward purchase agreements to its customers. As of December 31, 2012, the notional amounts of the outstanding positions with industrial customers were 6,000 MMBtus which were realized through 2013. 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.

The Company recognizes the change in fair value and the settlements in the "cost of revenue" line item within the consolidated statements of profit and loss.

During November 2013, the Company entered into a derivative financial instrument agreement (zero cost-collar with a range of $12.80 to $13.22 Pesos per Dollar) for hedging the volatility of its income tax liability attributable to the fluctuation of the Peso relative to the Dollar. The Company's monetary assets and liabilities are expressed in Dollars (functional currency) and are remeasured in Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability. As of December 31, 2013, this financial instrument had no effect in the consolidated statement of profit and loss given that at the instruments' expiry date the Dollar was within the range of the agreement.

21. Income taxes

The Company is subject to ISR and IETU until 2013.

ISR -The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR law, the rate will continue at 30% in 2014 and thereafter.

IETU – IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The IETU rate was 17.5%.

The current income tax was the greater of ISR and IETU up to 2013.

Based on its financial projections, the Company determined that it will basically pay ISR. Therefore, the Company only recognizes deferred income tax based on ISR. As of 2013, the Company calculates only deferred income tax based on ISR due to the IETU was abrogated.

21.1. Income taxes recognized in the consolidated statements of profit and loss:

	12/31/13	12/31/12
Current income tax:		
ISR	$ 50,210	$ 58,989
ISR for desconsolidation	21,436	
IETU	-	75
	71,646	59,064
Deferred Income tax:		
ISR	(3,317)	(18,263)
Adjustment to deferred income tax due to changes in tax rates and laws	18,106	-
IETU write-off	(2,643)	-
	12,146	(18,263)
Total taxes in the consolidated statements of profit and loss	$ 83,792	$ 40,801

Income tax expense is reconciled with the profit before tax as follows:

	12/31/13	12/31/12
Profit before income taxes	$ 191,493	$ 197,372
Income tax expense calculated at 30%	(57,448)	(59,212)
Foreign exchange effects	(6,706)	(6,682)
Effect of expired and unused operating loss carryforwards non recognized as deferred income tax assets	5,979	(2,819)
Effects of inflation adjustment	(38)	(2,600)
Effects on property, plant and equipment deferred income tax balances due to the change in inflation rate	11,696	33,951
Adjustment to deferred income tax due to changes in laws	(21,436)	-
Effect of deferred income tax balances due to changes in the income tax rate from 28% to 30% (effective beginning January 1, 2014)	(15,463)	-
Others	(376)	(3,439)
Income tax expense in consolidated statements of profit and loss	$ 83,792	$ 40,801

21.2. Income tax recognized directly in common stock and OCI

	31/12/13	31/12/12
Recognized directly in common stock:		
Issuance or ordinary shares under IPO	$ 7,388	$ -
Recognized directly in OCI:		
Financial instruments valuation held for hedging purposes	5,514	-
Total of income tax recognized directly in common stock and OCI	$ 12,902	$ -

21.3. 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:

	12/31/13	12/31/12
Deferred income tax assets:		
Benefit of tax-loss carryforwards for recovering income taxes paid in previous periods	$ 54,697	$ 37,847
Financial instruments	267	12,622
Accrued expenses and provisions	24,034	12,225
Effect of combining Sempra Gasoductos México	1,844	1,942
Employee benefits	2,392	1,931
Asset from dividends not distributed from net income tax account (“CUFIN”, by its initials in Spanish)	43,024	610
Inventories	2,086	(3,055)
Allowance for doubtful accounts	236	234
Deferred income tax assets for issuance or ordinary shares under IPO	7,388	-

	12/31/13	12/31/12
Deferred income tax asset regarding financial instruments valuation held for hedging purposes	5,514	-
Others	20	963
Total deferred income tax assets	141,503	65,319
Deconsolidation effect (a)	(35,275)	-
Consolidated deferred income tax assets	-	(62,944)
Deferred income tax asset	106,227	2,375
Deferred income tax liabilities:		
Property, plant and equipment	(227,121)	(204,691)
Liability related to tax consolidation benefits	-	(13,958)
Finance leases	(4,410)	(4,433)
Deferred income tax liabilities derived from dividends not distributed from CUFIN	-	(634)
Prepaid expenses	(5,896)	(5,792)
Other	(3,233)	(3,605)
Total deferred income tax liabilities	$ (240,660)	$ (233,113)
Deconsolidation effect (a)	35,275	-
Consolidated deferred income tax assets	$ -	$ 62,944
Deferred income tax liabilities	(205,385)	(170,169)

(a) The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and therefore, they are presented separately in the statement of financial position as of December 31, 2013.

21.4. Deferred income tax in the consolidated statements of financial position

The following is an analysis of the deferred tax assets (liabilities) showing in the consolidated statement of financial position:

	12/31/13	12/31/12
Assets	$ 106,227	$ 2,375
Liabilities	(205,385)	(170,169)
	$ (99,158)	$ (167,794)

Given changes in circumstances considered for assessing the recovery of tax-loss carryforward benefits in 2013, the deferred income tax asset related to the valuation of the benefit of the tax loss carryforwards of $735 was recognized with a credit in the consolidated statement of profit and loss.

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, 2013, are as follows:

Years	Tax-Loss Carryforwards	IMPAC recoverable
2014	$ -	$ 120
2015	-	120
2016	513	120
2017	5,050	405
2018	15,193	405
2019	11,809	405

Years	Tax-Loss Carryforwards	IMPAC recoverable
2020	6,426	405
2021	72,095	341
2022	16,353	336
2023	54,884	336
2024	-	285
2025	-	285
2026	-	285
	$ 182,323	$ 3,848

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $182,323 and $3,848, respectively.

21.5. Current tax receivable and payable

	12/31/13	12/31/12
Current tax assets:		
ISR receivable	$ 15,931	$ 4,657
IETU	-	4,183
	$ 15,931	$ 8,840
Current tax liabilities:		
ISR payable	$ (90,130)	$ (18,049)
IETU	-	(121)
	$ (90,130)	(18,170)

22. Stockholders' equity

	12/31/13	12/31/12
Common stock	$ 762,949	$ 618,752
Additional paid-in equity	937,953	536,577
	$ 1,700,902	$ 1,155,329

22.1 Issued member's equity is comprise as follows as of December 31, 2012:

		As of December 2012 (Mexican Pesos)			
Member's name	**Number of social parts**	**Fixed social parts**	**Variable social parts**	**Total**	**Total Social parts (Thousands of U.S. Dollar)**
Sempra Energy Holdings XI,		49,900	9,359,083,119	9,359,133,019	$ 618,752
Sempra Energy Holdings IX,		100	-	100	-
		50,000	9,359,083,119	9,359,133,119	$ 618,752

On August 16, 2012, Sempra Energy Holdings VIII, B. V. (“BV8”, Sempra Energy’s subsidiary) and Sempra Energy Holdings XI, B.V. (“BV11”, Sempra Energy’s subsidiary) entered into an intercompany share premium agreement by which BV8 agreed to make a non-cash premium contribution to BV11, consisting of its entire ownership interest in Sempra México. As a result of such transaction, BV11 was IEnova’s new parent company.

On September 10, 2012, variable members’ equity of Sempra México was increased by $480,094 ($5,861,622,509 Mexican Pesos) through the contribution of the BV11 membership interest in Sempra Gasoductos México. Such increase in comprised of $291,152 ($3,252,367 Mexican Pesos) allocated to social parts and $188,942 ($2,609,256 Mexican Pesos) allocated to additional paid-in capital, which is eliminated on consolidation. As a result of such membership increase, IEnova obtained ownership and control of Sempra Gasoductos México.

As of September 30, 2012 (unaudited) and as of December 31, 2012, IEnova’s equity is comprised of two, issued and outstanding, membership interest of $50,000 Mexican Pesos as fixed capital and $9,359,083,119 Mexican Pesos as variable capital, amounts owned by BV11 (99.999999%) and Sempra Energy Holdings IX, B.V. (“BV9”, Sempra Energy’s subsidiary) (0.000001%).

Pursuant to a resolution of the general ordinary members’ meeting on February 15, 2013, member’s equity increased was approved in $1.00 Peso, which was subscribed and paid by BV11, increasing the value of its social part; also, Company’s change of name from Sempra Mexico, S. de R. L. de C. V. to “Sociedad Anónima de Capital Variable” (“S. A. de C. V.”, Public limited Company) was approved (see Note 1.2.1). As a result of such resolution, the change of social parts for shares was performed; as of February 15, 2013 the distribution of such shares is as follows:

	Shares		
Shareholder’s 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 Holdco, S. de R. L. de C. V. (“Semco”, a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova’s shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry (“RNV”, by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova’s shares with the RNV, Semco acquired 100% of the Shares of BV11 pursuant to the above described terms; therefore, beginning this date, Semco is the new Parent Company of IEnova.

On March 21, 2013, the Company carried out 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 bookrunners in Mexico 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.

Shareholders' name	Number of shares	Fixed social parts	Variable social parts	Total	Total of common stock (Thousands of U.S. Dollar)
	Fort the years ended December 2013 (Mexican Pesos)				
Semco Holdco, S. de	935,913,302	49,900	9,359,083,120	9,359,133,020	$ 618,752
Sempra Energy Holdings	10	100	-	100	-
Public investors	218,110,500	-	2,181,105,008	2,181,105,008	144,197
	1,154,023,812	50,000	11,540,188,128	11,540,238,12	$ 762,949

23. Declared dividends

During 2013 and 2012, pursuant to the resolution of extraordinary stockholders' meetings, payments of dividends in cash were approved, against CUFIN balance, for the following amounts:

Meeting date	
March 1, 2013	$ 39,000
October 7, 2013	117,000
	$ 156,000
March 29, 2012	$ 15,100
December 5, 2012	125,000
	$ 140,100

23.1. Dividends per share

	Cents per share for year ended	
	12/31/13	12/31/12
IEnova	$ 0.14	$ 0.15

24. Segment information

24.1. Products and services from which reportable segments derive their revenues

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segments under IFRS 8, *Operating Segments*, are described and presented in Note 1.3.

The following tables show selected information by segment from the consolidated statements of profit and loss and consolidated statements of financial position.

24.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment.

	Segment revenue	
	12/31/13	**12/31/12**
Gas:		
Sales to customers	$ 416,829	$ 370,314
Revenues with foreign related parties	90,985	107,959
Intersegment sales	252,117	169,595
Power:		
Sales to customers	168,340	127,656
Intersegment sales	52,950	5,890
Corporate:		
Allocation of professional services	1,682	1,678
Intersegment professional services	35,854	3,117
	1,018,757	786,209
Intersegment adjustments and eliminations	(340,921)	(178,602)
Total segment revenue	$ 677,836	$ 607,607

	Segment profit	
	12/31/13	**12/31/12**
Gas	$ 180,296	$ 222,568
Power	8,567	6,868
Corporate	(46,473)	(35,421)
Total segment profit	$ 142,390	$ 194,015

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

24.3. Assets and liabilities by segment

	12/31/13	**12/31/12**
Assets by segment:		
Gas	$ 2,413,965	$ 2,101,378
Power	433,894	360,494
Corporate	394,049	38,846
Consolidated total assets	$ 3,241,908	$ 2,500,718
Liabilities by segment:		
Gas	$ 272,298	$ 243,904
Power	64,794	59,084
Corporate	588,404	434,612
Consolidated total liabilities	$ 925,496	$ 737,600

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 11.1., and
- All liabilities are allocated to reportable segments.

24.4. *Other information by segment*

	Property, plant and equipment		Accumulated depreciation	
	12/31/13	12/31/12	12/31/13	12/31/12
Gas	$ 2,138,129	$1,813,044	$ (287,407)	$ (243,429)
Power	504,595	442,518	(150,791)	(135,421)
Corporate	13,156	11,066	(3,845)	(3,039)
	$ 2,655,880	$ 2,266,628	$ (442,043)	$ (381,899)

	Depreciation and amortization		Additions to property, plant and equipment	
	12/31/13	12/31/12	12/31/13	12/31/12
Gas	$ 44,605	$ 42,830	$ 337,545	$ 40,371
Power	15,420	17,755	63,345	5,960
Corporate	1,139	764	5,246	966
	$ 61,164	$ 61,349	$ 406,136	$ 47,297

	Interest income		Finance cost	
	12/31/13	12/31/12	12/31/13	12/31/12
Gas	$ 1,140	$ 999	$ 12,046	$ (1,355)
Power	5	3	683	364
Corporate	227	25	(17,764)	(10,355)
	$ 1,372	$ 1,027	$ (5,035)	$ (11,346)

	Share of profits of joint venture		Income tax benefit (expense)	
	12/31/13	12/31/12	12/31/13	12/31/12
Gas	$ 34,689	$ 37,444	$ (57,165)	$ (29,559)
Power	-	-	9,158	2,479
Corporate	-	-	(35,785)	(13,721)
	$ 34,689	$ 37,444	$ (83,792)	$ (40,801)

24.5. *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:

	12/31/13	12/31/12
Power generation	$ 168,340	$ 127,656
Sale of natural gas	169,832	144,483
Storage and regasification capacity	93,785	94,174
Natural gas distribution	99,235	78,128
Transportation of natural gas	44,335	52,298
Other operating revenues	102,309	110,868
	$ 677,836	$ 607,607

24.6. Other operating revenues

Due to a lack of LNG cargoes, Sempra LNG Marketing México received payments from SLNGI related to the losses and obligations incurred in 2013 and 2012, of $90,762, and $107,754, respectively, which are presented within the revenues line item in the accompanying consolidated statements of profit and loss.

25. Interest income

	12/31/13	12/31/12
Interest income:		
Bank investments	$ 1,369	$ 1,003
Related parties	3	24
	$ 1,372	$ 1,027

The following is an analysis of interest income by category of asset.

	12/31/13	12/31/12
Held-to-maturity investments	$ 1,369	$ 1,003
Loans and receivables (including cash and bank balances)	3	24
	$ 1,372	$ 1,027

26. Administrative and other expenses

	12/31/13	12/31/12
Employee benefits expenses	$ 23,221	$ 14,328
Purchased materials	12,274	10,238
Purchased services	47,409	34,017
Outside services and others	16,781	17,840
	$ 99,685	$ 76,423

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.

27. Other gains and (losses)

	12/31/13	12/31/12
Net foreign exchange losses	$ (2,303)	$ (1,631)
Net gain (loss) arising on financial liabilities classified as held for trading (a)	8,272	(8,399)
Other (losses) gains	1,017	1,185
	$ 6,986	$ (8,845)

(a) The amount represents a change in fair value arising from the interest rate swap (see Note 20.8) and the related settlements.

28. Finance costs

	12/31/13	12/31/12
Interest on loans from related parties	$ 2,761	$ 10,371
Decommissioning liabilities accretion expense	1,432	1,906
Interest of long-term loan	13,636	-
Capitalized interest (a)	(12,811)	(76)
Other finance costs	17	(855)
	$ 5,035	$ 11,346

(a) Refer to Note 12, for the capitalized interest on qualified assets.

29. Depreciation and amortization expense

	12/31/13	12/31/12
Depreciation of property, plant and equipment	$ 61,013	$ 61,199
Amortization of other assets	151	150
Total depreciation and amortization expense	$ 61,164	$ 61,349

30. Basic and diluted earnings per share

	Year ended	
	31/12/13	31/12/12
Basic and diluted earnings per share	$ 0.13	$ 0.21

30.1. Earnings used in the calculation of basic and diluted earnings per share

The earnings and weighted average number of shares used in the calculation of basic and diluted earnings per share are as follows:

	Year ended	
	12/31/13	12/31/12
Earnings used in the calculation of basic and diluted earnings per share	$ 142,390	$ 194,015

	Year ended	
	31/12/13	31/12/12
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,123,885,851	935,913,312

Due to Company exchanged its social parts for shares (see Note 22.1.) during the year ended December 31, 2013, the basic and diluted earnings per share were calculated retrospectively to December 31, 2012, considering the same number of exchanged shares.

The Company does not have potentially dilutive shares.

31. Commitments

31.1. Sale commitments

a. GRO has entered into firm transportation service agreements ("FTSAs") with eight customers. Under the FTSAs, the Company is committed to provide firm natural gas transportation service up to certain daily quantities of natural gas, defined as Maximum Daily Quantities ("MDQ") measured in dekatherms per day ("Dth/d"). The FTSAs establish a transportation service rate which can be a conventional rate or a regulated rate. Such rates are applied to customers' reserved daily transportation capacity. Conventional rates typically remain fixed during the term of the contract. The regulated rates are adjusted annually for inflation and other factors per regulations and the CRE authorization. The range of effective periods and the agreed-upon MDQ for each agreement described above are from five to 25 years and from 800 to 1,307,000 Dth/d, respectively.

b. TGN entered into a 20-year FTSA with a third party that began when LNG Terminal commenced operations. The FTSA provides for 540,000 MMBtus per day of reserved capacity.

c. ECA has a contract to sell 50% of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned up to 29% of its contracted capacity to another independent third party.

d. ECA has 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.

31.2. Purchase commitments

a. TDM entered into a five-year base contract for the sale and purchase of natural gas with RBS Sempra Energy Trading México, S. de R. L. de C. V., a related party, commencing on September 1, 2009. Effective May 1, 2011, the contract was transferred to JPM Ventures Energy Mexico, S. de R. L. de C. V. ("JPM"). TDM is obligated to purchase and JPM is obligated to supply daily base load volumes equal to but not less than the minimum amount (70,000 MMBtus per day) nor greater than the maximum amount (105,000 MMBtus per day).

   During 2013 and 2012, payments under the agreement were $92,620 and $75,809, respectively. The future contractual cash payments will in the amount of $70,368.

b. Sempra LNG Marketing México and an independent third party entered into a natural gas supply agreement, which stipulates that penalties derived from non-compliance with the terms and conditions established therein could be up to $85 million, including costs and expenses and/or the cancellation of the agreement. Additionally, Sempra LNG Marketing México signed a letter of credit through Sempra LNG Marketing Corp., a related party, with the Banco Nacional de México, S. A. ("Banamex") for the maximum liability. Company's management believes that all costs and expenses incurred as of the date of the financial statements related to this agreement have been recognized and that there are no current obligations that need to be recorded or disclosed; however, future obligations could arise.

c. Through an agreement which assigned rights and obligations from Rumorosa Wind Energy, S. de R. L. de C. V. to ESJ, ESJ has acquired the rights to a 30-year land lease agreement with the Ejido Jacume to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 30-year term, and includes a four year grace period starting with the beginning of excavation for turbine foundations. If commercial generation of wind power is successfully developed, ESJ will pay a leasing fee to Ejido Jacume equal to 4% of gross revenues from the sale of electricity for the duration of the agreement.

ESJ, Ejido Cordillera La Molina and Parque Eólico La Rumorosa, S. A. de C. V. entered into a land lease agreement under which ESJ acquired rights to use land for generating and transmitting electricity using wind turbines. ESJ made up-front payments of $750 and is obligated to make quarterly payments of $30 during the first five years or until the start of commercial operations. In addition, $1,500 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 250 MW, and $300 is due at the beginning of excavation for turbine foundations for each additional block of 100 MW. If commercial generation of wind power is successfully developed, ESJH will also pay a leasing fee equal to 3% of gross revenues from the sale of electricity for the first 20 years, increasing to 4% thereafter. Company's management believes all costs and expenses related to this agreement have been properly recognized within administrative and other expenses in these consolidated financial statements.

During 2013 and 2012, payments under the agreement were $144 for each year. Future contractual cash payments are as follows:

Year	Amounts
2014	$ 144
2015	144
2016	144
2017	144
Thereafter	2,868
	$ 3,444

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 made up-front payments of $296, and is obligated to make quarterly payments of $74 during the first 10 years or until the start of commercial operations. In addition, $294 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 100 MW, and $71 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 or 3.5 % of gross revenues from the sale of electricity for the remainder of the term.

During 2013 and 2012, payments under the agreements were $294 for each year. Future contractual cash payments are as follows:

Years	Amounts
2014	$ 294
2015	294
2016	294
2017	294
Thereafter	294
	$ 1,470

e. ESJ has received its environmental impact manifest permit (Manifiesto de Impacto Ambiental, "MIA" by its initials in Spanish). The MIA is the principal environmental permit in Mexico, and is issued by SEMARNAT. Company's management believes all costs and expenses related to this permit have been properly recognized within administrative and other expenses in these consolidated financial statements; however, future costs could be incurred.

f. The Company leases the building space of its administrative offices in the cities of Tijuana, Mexicali, Chihuahua, Durango, and Mexico City. During 2013 and 2012, the rent expense amounted to $1,976 and $1,113, respectively.

The leases expire in 2013 through 2021 and establish the following future contractual payments:

Years	Amounts
2014	$ 2,679
2015	2,322
2016	2,112
2017	2,017
2018	1,560
Thereafter	1,049
	$ 11,739

g. During 2003, TDM entered into an 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 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 2013 and 2012 fixed payments, under the LTSA, were $645 and $639, respectively; variable payments under such LTSA were $6,484 and $6,549, respectively.

Future contractual cash payments under the LTSA are as follows:

Years	Amounts
2014	$ 407
2015	407
2016	407
2017	407
2018	407
Thereafter	1,629
	$ 3,664

h. TDM entered into a 20-year gas transportation service agreement with North Baja Pipeline. The contract was assigned to Sempra LNG Marketing, an affiliate company in United States of America, with an effective date of October 2009.

i. During 2008, ECA entered into a service agreement with a third party which provides extended service and maintenance for turbines utilized at the LNG Terminal. The agreement provides for a monthly fee which covers operational support and extended product warranty. The agreement also provides for an additional cost for major turbine maintenance, which will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60 months starting from the date of first beneficial use. During 2013, the company renegotiate the agreement-terms until 2018.

During 2013 and 012, payments under the agreement were $1,511 and $1,841, respectively. Future contractual cash payments are as follows:

Years	Amounts
2014	$ 1,507
2015	1,568
2016	4,105
2017	4,254
2018	440
	$ 11,874

j. ECA entered into various technical service and maintenance agreements with third parties. During 2013 and 2012, payments under such agreements were $10,747 and $5,914, respectively. Future contractual cash payments of such commitments are as follows:

Years	Amounts
2014	$ 3,978
2015	1,678
2016	1,310
2017	1,200
2018	1,200
Thereafter	20,400
	$ 29,766

k. On January 1, 2013 (with effective date on January 1, 2012), SGEN and TDM entered into an schedule coordination, energy management and related services agreement, with term of 5 years (with possibility to extend the term one more year), for which TDM will continue to deliver all of its power output directly to the CAISO and SGEN provides marketing, scheduling, and dispatch services for TDM, among others.

During 2013 and 2012, payments under the agreement were $1,800 and 16,875, respectively. Future contractual cash payments are as follows:

Years	Amounts
2014	$ 1,800
2015	1,800
2016	1,800
2017	1,800
	$ 7,200

l. *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 $0.25. 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.

The company estimates that the total cost of the gas Gasoducto Noroeste will be $ 1 million, approximately and will be completed in August of 2016. The total capacity of the Gasoducto Noroeste is contracted fully with CFE under 2 25-year contracts each, denominated in US 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 million and $65 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.

m. In order to carry out the construction of the Northwest gas pipeline, 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 will take place in several stages with estimated completion date on August, 2015. The contract value is $155,335; in this transaction Sempra Energy is the guarantor to Stupp Corporation, for the total value of the contract, less the amounts paid by GAP.

- On December 12, 2012, GAP held a contract with Tubacero, S. de R. L. de C. V. and Distribuidora Tubacero, S. de R. L. de C. V.; the work will take place in several stages with estimated completion date on July 2014. The supply contract value is $123,333, and as a guarantee of compliance, GAP issued an irrevocable standby credit letter for $28,613 regarding the 20% in advance of the contract plus VAT, with due date on January 4, 2013.

- On February 1, 2013, GAP held a contract with Tuberías Procarsa, S. A. de C. V.; the work will take place in several stages with estimated completion date in August 2015. The supply contract value is $53,918, and as a guarantee of compliance, GAP issued an irrevocable standby letter of credit for $28,576 regarding the 47% in advance of the contract plus VAT, with a maturity date of May 14, 2013.

n. 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 $52.5 and $35.3 million, respectively for such trust agreement, and for which the Company paid advances in 2012 for $13.1 and $8.7 million, respectively and during 2013, was realized the additional contributions of $5 million and 0.1, 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 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.

o. On December 13, 2012, Gasoductos del Sureste, S. de R. L. de C.V. ("Gasoductos del Sureste", wholly owned subsidiary of GdC, a joint venture with PGPB), entered into a transportation agreement of ethane and liquid ethane with PGPB between Gas Processors Centers ("CPG", by its initials in Spanish) of Ciudad PEMEX (Tabasco, México), Nuevo PEMEX (Tabasco, México), Cactus (Chiapas, México), Complejo Etileno XXI and the Petrochemical Complex Cangrejera (both in Coatzacoalcos, Veracruz, México). Gasoducto del Sureste is responsible for the construction of transportation works and its maintenance, which will have an approximate length of 140 miles (225 kilometers, approximately). The scheduled term of the works and commencement date of commercial operation is June 30, 2014; the contract has a term of 21 years, from the date on which the first segment begins commercial operation. Gasoducto del Sureste is also liable to obtain and maintain all permits, as well as comply with all labor obligations according to the Mexican Law; also, Gasoductos del Sureste has to comply with the applicable law to protect the environment, and reporting in writing to PGPB the physical and financial progress of the work. Gasoductos del Sureste guaranteed to PGPB the fulfillment of its obligations through a corporate guarantee and a standby credit letter for USD$30 million, up to the date of commercial operation and, after that date, up to an amount equals to the largest among between: (a) 10% of the estimated amount to deliver by PGPB for payment of transportation services per year, or (b) the 10% of the annual average estimated amount to exercise in all subsequent years during the term of the contract for the correct and timely compliance

   The estimated construction costs of the pipeline are approximately $330 million.

p. On January 2013, PEMEX announced the first phase of the project known as "Los Ramones", which consists of a natural gas distribution system of approximately 1,000 kilometers, which will pass through four Mexican states: Tamaulipas, Aguascalientes, Queretaro and Guanajuato, bordering with the U. S., and reaching Los Ramones in Nuevo Leon, México, and that will be developed by GdC. The pipeline network will incorporate tubes with diameters of 48, 42 and 24 inches and will feature five compression stations. The 17% demand for gas in the Centre - West of México will be satisfied with this infrastructure.

q. 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 expects to pay approximately $6,843 per year to Sempra U. S. Gas & Power pursuant to this agreement. This agreement has an initial term of five years.

r. 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 expects to pay approximately $8 million per year for these services. The contract has indefinite term.

s. The Company entered into sale of natural gas contract with EDF Trading North America LLC from February 1, 2013 to January 31, 2014 for 12,000 MMBtus daily.

t. *Sonora project.* According to the turnkey contract with 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 the Company's schedule and construction plan; with proven and fully operating facilities. The project construction materials will be supplied by GAP; also, GAP will be responsible for obtaining the rights of ways required for the construction and operation of the gas pipeline network.

   The construction of the project will include two segments; the first will have a length of approximately 505 kilometers, diameter of 36 inches a transportation capacity of 770 million of cubic feet per day ("Mmcfd"); and the second, will have a length of approximately 330 kilometers, diameter of 30 inches and a transportation capacity of 510 Mmcfd. The construction of the first segment will start on the date of signature of the contract and will conclude on September 30, 2014, approximately; the second segment commenced on September 2013 and will conclude on February 15, 2015, approximately.

The contract price for the construction of the first segment will be $156.5 million until termination, with the option to extend to the second segment.

u. *Energía Sierra Juárez.* According to Wind Turbine Supply and Warranty Agreement, for developing the first phase of the Energía Sierra Juárez, project, the contracting parties agreed: (i) ESJ, ESJ Turbinas and ESJ Turbinas II will acquire from Vestas, jointly, 47 wind turbines, as well as the option to acquire 5 more turbines, (ii) IEnova will act as the guarantor of the obligations of ESJ Turbinas and ESJ Turbines II under the supply contract, and (iii) Vestas will provide maintenance services to wind turbines to ESJ.

The supply contract price is $159 million.

v. On July 10,2013, regarding the development of first phase of the Energía Sierra Juárez project, ESJ, ESJ Turbinas, ESJ Turbinas II y Anemo Energy, S. de R. L. de C. V. ("Anemo Energy") entering into a 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.

w. On July 19, 2013, GdC entered into a contract with PGPB for providing natural gas transportation service, for 25 years regarding all of the transport capacity of the pipeline network known as "Los Ramones I".

32. Contingencies

32.1. Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident related parties 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.

32.2. Judicial, administrative or arbitral proceedings

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

<u>*ECA's matters*</u>

a. *Castro, Valdez, and Palafox Appeals of the LNG Terminal's MIA.* In May 2003, Hiram Castro Cruz and Roberto Valdez Castañeda ("Castro and Valdez") in one proceeding, and Mónica Fabiola Palafox ("Palafox") in another, filed administrative appeals with SEMARNAT challenging the issuance of the MIA for the LNG Terminal granted to ECA in April 2003, alleging claims similar to those alleged by IVG described above. SEMARNAT dismissed the appeals. The claimants appealed the dismissals, and in January 2006 and May 2010, the TFJFA in Mexico City issued judgments nullifying SEMARNAT's dismissals and ordering SEMARNAT to issue new resolutions in compliance with the judgments. In the Castro and Valdez case, SEMARNAT considered the appeal, and in January 2012 it issued a new resolution confirming the validity of the MIA. In March 2012, Valdez appealed SEMARNAT's resolution to the TFJFA in Mexico City and ECA filed an appeal in federal district court in Mexico City challenging the TFJFA's admittance of Valdez's appeal. In the Fabiola case, SEMARNAT has not yet issued its new resolution concerning the MIA. The Company's management believes that the Castro, Valdez, and Palafox claims are without merit.

b. *IVG Challenge to the ECA's Port Concession.* In January 2005, IVG requested the Mexican Communications and Transport Ministry (Secretaría de Comunicaciones y Transportes, "SCT" by its initials in Spanish), to revoke ECA's Port Concession, which authorizes ECA's use of national port facilities for its maritime operations. IVG alleges that SCT should have applied certain environmental requirements in connection with its authorization of ECA's Port Concession; that the ECA terminal conducts activities beyond the scope of its authorization; that ECA failed to perform a risk study; and that SEMARNAT modified the MIA *without* notifying SCT. In March 2005, SCT dismissed the appeal, and IVG then filed an annulment claim with the TFJFA in Mexico City. In March 2010, the TFJFA overturned SCT's dismissal, and ordered SCT to consider the appeal. In May 2011, SCT issued a resolution again rejecting the appeal. In August 2011, IVG filed a second annulment claim with the TFJFA, repeating its prior assertions and also alleging that the SCT lacked the legal powers to issue the resolution. ECA appealed the TFJFA's acceptance of the second annulment claim, on the grounds that IVG's claims had been resolved in the earlier proceeding. In June 2012, the TFJFA agreed and dismissed IVG's second annulment claim. IVG filed an amparo in federal court challenging the TFJFA's dismissal. ECA's response was filed on August 24, 2012 to such demand. The SCT and ECA answered this demand. During 2013, IVG filed suit of amparo in the federal courts, against the dismissal of the appeal to the TFJFA, the amparo was granted by lifting the closure of the annulment recourse. The annulment recourse is pending; SCT and the ECA have already answered the demand. The Company's management believes that IVG's claims are without merit.

c. *Inmuebles Baja Pacífico, S.A. de C.V. ("IBP") Challenge to the LNG Terminal's MIA*. In May 2006, IBP filed a complaint against the Mexican Federal Attorney of Environmental Protection (Procuraduría Federal de Protección al *Ambiente*, "PROFEPA" by its initials in Spanish), alleging that the conditions and mitigation measures imposed in the MIA are inadequate and that ECA's operations cause damage to the environment, and seeking an order modifying or nullifying the MIA. PROFEPA inspected the LNG Terminal and by official communication dated May 18, 2010, PROFEPA notified IBP that ECA's operations comply with the mitigation measures imposed in the MIA and do not cause damage to the environment. IBP appealed this determination to the TFJFA in Mexico City, and IBP's appeal remains pending. During 2013, the TFJFA resolved the judgment declaring the nullity of the claimed act to the effect that PROFEPA will evaluate the tests offered by and ruling on arguments of IBP. The Company and IBP presented demands for amparo against TFJFA's resolution, which were admitted and are pending of resolution. The Company's management considers that IBP claims are without merit.

d. *Ramón Eugenio Sánchez Ritchie ("Sánchez Ritchie") Amparo.* In June 2010, Sánchez Ritchie filed an amparo in the federal district court in Baja California, Mexico. The suit challenges all of the permits and authorizations issued for the construction and operation of the LNG Terminal. Sánchez Ritchie's suit was filed against 17 different government agencies, including SEMARNAT, the CRE, and the Municipality of Ensenada, among others. Although the primary permits for the LNG Terminal had been issued more than six years *prior* to his filing, Sánchez Ritchie alleged that the operation of the LNG Terminal would endanger him as the alleged owner of property adjacent to the LNG Terminal (which is disputed by ECA) and that the ECA Permits therefore were granted in violation of his rights. He requested injunctive relief and demanded that the court order the applicable government agencies to revoke the ECA Permits. On June 17, 2010 the federal district court issued a provisional order calling for the various authorities to suspend the ECA Permits, but that provisional order was reversed by the federal circuit court on June 24, 2010 before any governmental authorities responded. Each of the governmental authorities named in the amparo denied the allegations and asserted the validity of its respective permits and authorizations. The hearing on the merits of Sánchez Ritchie's amparo has been delayed by numerous procedural motions and appeals. In May 2012 the case was transferred to the federal district court in Tijuana. No date is set for the resolution on the merits. The Company's management believes that Sánchez Ritchie's claims are without merit.

e. *Sánchez Ritchie Municipal Complaint.* In February 2011, Sánchez Ritchie filed an administrative complaint with the Direction of Urban Control (Dirección de Control Urbano, "DCU" by its initials in Spanish) from the Municipality of Ensenada in Baja California, Mexico challenging the legality of the land use permits and the construction permits issued for the LNG Terminal in 2003 and 2004, respectively. Although the Municipality had confirmed the validity of those permits in its response to Sánchez Ritchie's amparo described above, shortly after receiving the complaint the DCU issued a temporary "closure order" calling for the terminal to cease operations. Actions by state and federal government authorities prevented interruption of the terminal's operations while ECA filed a response to the administrative complaint with the DCU and an amparo in federal district court in Ensenada. In March 2011, the federal district court issued injunctions precluding enforcement of the closure order pending resolution of ECA's amparo. Sánchez Ritchie and the Municipality appealed the injunctions, which appeals are pending before the federal circuit court in Mexicali. The resolution on the merits of ECA's amparo was stayed by the federal district court in Ensenada pending the resolution of procedural appeals filed by Sánchez Ritchie. The resolution of the administrative proceeding is stayed until ECA's amparo is decided. The Company's management believes that Sánchez Ritchie's claims are without merit.

f. *Agrarian Court Action.* In February 2006, Saloman Arya Furst and Abraham Hanono Raffoul filed an annulment action in the federal agrarian court in Ensenada naming as defendants the Mexican Agrarian Reform Ministry (Secretaría de la Reforma Agraria), ECA, and twenty other parties. The suit seeks to annul property titles granted by the National Agrarian Registry for parcels on which the LNG Terminal is situated, as well as restitution of a different parcel that allegedly sits in the same place, on the grounds that the titles to the ECA parcels were improperly issued to ECA's predecessors and without regard to the allegedly existing title. In August 2011, a final hearing was held in the case; before a decision could be issued, the plaintiffs filed an amparo challenging the court's refusal in 2006 to admit certain evidence in the case. That amparo cannot proceed until the court formally notifies all of the defendants in the underlying action, which has not occurred. The Company's management believes that the annulment action is without merit.

g. *Criminal Investigation.* In May 2009, Sánchez Ritchie filed with the state District Attorney in Ensenada a complaint alleging that "Sempra affiliates," several ECA employees, and former members of the District Attorney's office committed the crime of procedural fraud in connection with a criminal prosecution ECA initiated against Sánchez Ritchie in 2006 relating to a dispute over the possession of property to which ECA holds title that is adjacent to the LNG Terminal. In particular, ECA complained to the District Attorney's office in September 2006 that Sánchez Ritchie had committed the crime of despojo, or dispossession, when he forcibly entered the property. In connection with that criminal proceeding, the District Attorney issued a provisional order removing Sánchez Ritchie from the property. Sánchez Ritchie alleged in his 2009 complaint that ECA and the other defendants gave false information to procure that order. The District Attorney, the official charged with investigating such complaints, determined there was insufficient evidence to indict any defendant and closed its investigation, and in March 2011, the criminal court in Tijuana confirmed the dismissal. In September 2011, Sánchez Ritchie filed an amparo in federal district court in Ensenada challenging the court's ruling. The hearing on the merits of the amparo was held in March 2012 and the court has not yet issued its ruling. The Company's management believes that Sánchez Ritchie's allegations are without merit.

h. In June 2013, ECA was notified of a demand initiated in a Civil Court in Ensenada, Baja California, by María de el Refugio Sánchez widow of Chavez, (the "plaintiff"). The plaintiff claimed that the price she received in 2008 from the sale of a plot in which a portion of the LNG terminal is located was unfairly low. The plaintiff pretends to cancel the purchase agreement celebrated between the plaintiff and ECA. The Company's management considers that the claims of the plaintiff are unfounded.

i. *Labor matters.* ECA is jointly responsible in various labor proceedings brought by several employees of its contractors. Based on the opinions of outside counsel, it is not possible to determine the degree of risk in this stage of the proceedings since the presentation of evidence has not been completed.

<u>ESJ's matters</u>

j. In November 2011, Terra Peninsular, A. C. ("TP"), a Mexican environmental organization, filed an administrative appeal with the TFJFA in Mexico City challenging SEMARNAT's issuance of an MIA to ESJ for the construction and operation of a wind electric generation project. TP alleges that it was not notified of the resolution granting the MIA and that the MIA was not evaluated in compliance with applicable law, and further alleges that had SEMARNAT done so, it would have denied the MIA. However, TP does not specify which laws or regulations were not properly applied. TP further alleges that separate authorizations should have been required for the different phases of the project, and that the project's conditional authorization permitting future development phases that are not yet fully defined is inadequate to protect the environment. TFJFA in Mexico City denied an injunction sought by TP, but admitted TP's complaint. ESJ and SEMARNAT filed their responses to TP's complaint in June 2012, contending that TP's challenge is not timely and that the MIA was validly issued. The court must determine whether to admit the experts appointed by TP and ESJ, as well as any appointed by SEMARNAT, before setting a date for trial. The Company's management believes that TP's challenges are without merit.

The operations at the LNG Terminal, TDM's generating plant and ESJ's eolic project have not been affected as a result of the various claims described above, with each facility continuing to operate normally during these proceedings. However, a resolution against the Company on any of these claims could have a material adverse effect on the operations of the LNG Terminal or the TDM generating plant, and in turn, on Company's business, financial position, results of operations or cash flows.

Except as it relates to the aforementioned matters, neither the Company nor its assets are subject to any legal action other than those that arise in the normal course of business.

33. Application of new and revised IFRSs

33.1 New and revised IFRSs in issue and effective

The Company has applied the following new and revised IFRSs, applicable to the Company's business, effective for annual periods beginning on or after January 1, 2013:

IFRS 10	*Consolidated financial statements*
IFRS 11	*Joint arrangements*
IFRS 12	*Disclosure of interest in other entities*
IAS 27 (as revised in 2011)	*Separate financial statements*
IAS 28 (as revised in 2011)	*Investment in associates and joint ventures*

The application of these IFRSs for the year ended December 31, 2013, does not have significant effects in Company's consolidated financial statements.

33.2 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, applicable to Company's businesses:

IFRS 9	*Financial instruments*[2]
Amendments to IFRS 9 and IFRS 7	*Mandatory effective date of IFRS 9 and transition disclosures*[2]
Amendments to IAS 32, *Financial instruments: presentation*	*Offsetting financial assets and financial liabilities*[1]
IFRIC 21	*Levies*[1]

[1] Effective for annual periods beginning on or after January 1, 2014.
[2] Effective for annual periods beginning on or after January 1, 2017.

IFRS 9, *Financial instruments* - IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

The key requirements of IFRS 9 are:

- All financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of the subsequent accounting periods. In addition, under IFRS 9, entities may make and irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- Regarding the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Company's management estimates this IFRS will not have significant effects in its consolidated financial statements for the annual period ended December 31, 2013.

Amendments to IAS 32, *Disclosures – Offsetting financial assets and financial liabilities* – The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

The Company's management estimates this amendment to IFRS will not have significant effects in its consolidated financial statements for the annual period ended December 31, 2013.

IFRIC 21, Levies – IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes, fines and other penalties included in IAS 12 Income Taxes, liabilities arising from emissions trading schemes and outflows within the scope of other Standards.

The Interpretation does not supersede IFRIC 6 Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment, which remains in force and is consistent with IFRIC 21.

The Company's management estimates this IFRS will not have significant effects in its consolidated financial statements for the annual period ended December 31, 2013.

34. Events after the reporting period

a. On March 12, 2014, GdC entered into a partnership agreement with TAG Pipelines, S. de R. L. de C. V. (an affiliate of Mex Gas International, PGPB's subsidiary), for establishing the terms and conditions for which they jointly operate TAG Norte, S. de R. L. de C. V. ("TAG Norte").

TAG Norte will develop Los Ramones Norte project which consists of 441 kilometers pipeline system and two compression stations between the municipality of Los Ramones, Nuevo León and San Luis Potosí, with an investment of $1 billion, approximately.

Also, at the same date, TAG Norte 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-years term from the date of commercial operation, estimated for last quarter of 2015. The effects of this agreement are subject to obtaining the appropriate permits.

b. On November 13, 2013, the Mexican tax authority amended the Miscellaneous Regulation I.3.2.14 that allowed IEnova to continue as Controller Company for the purposes of the tax consolidation regime; given such change, the Mexican tax authority considers that IEnova no longer qualifies as a Controller Company.

Due to the above, on December 17, 2013, IEnova file to the Mexican tax authority a request for conveying the authorization of consolidation in favor of its holding company, through the memorandum 900 02 03-01-2014-404 issued by the tax authority. On March 13, 2014, the Mexican tax authority decided not to authorize the above mentioned transfer and determined that IEnova is in the deconsolidation case beginning November 13, 2013.

As a result, on April 14, 2014 IEnova filed the supplementary annual income tax return for 2012 fiscal year through which declared the lump sum of deferred ISR for deconsolidation.

c. In connection with the Energía Sierra Juárez project, on February 25, 2014, the Company's Board of Directors approved the celebration of a purchase agreement with an independent third party for the 50% of this project.

35. Approval of financial statements

The consolidated financial statements were approved by Arturo Infanzón Favela, Executive Operations and Finance Vice-President and authorized for issue on April 15, 2014.

36. Registered offices

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juárez, C.P. 06600
  México, D. F.

- Carretera Escénica Tijuana – Ensenada Km. 81.2
  Col. El Sauzal, C. P. 22760
  Ensenada, B.C.

- Carretera Mexicali Tijuana Km. 14.5
  Col. Sonora, C. P. 212110
  Mexicali, B.C.

- Avenida Tecnológico No. 4505
  Col. Granjas, C. P. 31160
  Chihuahua, Chih.

- Boulevard Francisco Eusebio Kino No. 309
  Piso 10, Col. Country Club
  Hermosillo, Son.

* * * * * *

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report dated February 27, 2014

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2013 and 2012

Contents **Page**

Contents	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statement of Variations in Stockholders' Equity	5
Consolidated Cash Flow Statement	6
Notes to Consolidated Financial Statements	7

Galaz, Yamasaki, Ruiz Urquiza, S.C.
Paseo de la Reforma 489
Colonia Cuauhtémoc
06500 México, D.F.
México

Tel:+52 (55) 5080 6000
Fax: +52 (55) 5080 6001
www.deloitte.com/mx

Independent Auditors' Report to the Board and Directors and Partners 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 company), which consist of the consolidated balance sheets at December 31, 2013, and consolidated statements income, variations in stockholders' equity and cash flows for the fiscal years then ended, as well a summary of the significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and reasonable presentation of the accompanying consolidated financial statements in accordance with the Mexican Financial Reporting Standards, as well as for the Internal Control deemed necessary by Management to enable the preparation of financial statements free from material misstatement due to fraud or error.

Independent auditors' responsibility

The independent auditors' responsibility consists of expressing an opinion on the accompanying consolidated financial statements based on our audit. We have conducted our audits based on the International Auditing Standards. Said standards require that we comply with the ethical requirements and that we plan and perform the audit in order to obtain reasonable assurance that the financial statements are free from material misstatement.

The audit consists of an examination, based on selective tests, to obtain evidence that supports the figures and disclosures presented in the financial statements. The procedures are selected at the auditor's discretion and include the evaluation of the risk of material misstatement in the financial statements due to fraud or error. On analyzing said risk, the auditor considers the internal controls relevant to the Company's preparation and reasonable presentation of the financial statements in order to design auditing procedures adequate for the circumstances and not for the purpose of expressing an opinion on the efficiency of the Company's internal controls. The audit also includes an evaluation of the accounting policies applied, the significant estimates made by Management and of the presentation of the financial statements taken as a whole.

We consider that the audit evidence provides a sufficient and adequate based for our opinion.

Opinion

In our opinion, the financial statements reasonably present in all material aspects, the financial situation of Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries at December 31, 2013 and 2012¸ as well as its income and cash flows for the years then ended in accordance with the Mexican Financial Reporting Standards

Deloitte

Other matters

As mentioned in Note 3a, beginning January 1, 2012, the Company adopted the following new provision: MFRS B-3 “Statements of Comprehensive Income", which establishes the option of presenting’, a) a single comprehensive income statement that contains the net profit or loss line items, as well as other comprehensive income (OCI) and equity in OCI of other companies, or b) two statements: the statement of income (or operations), which should include only the net profit or loss line items, and the statement of other comprehensive income (loss), which should start from net profit or loss and present the OCI items and equity in OCI of other companies. The standard also establish that items such as non-ordinary must not be presented separately whether in the financial statements or in the notes to the financial statements.

Galaz, Yamazaki. Ruiz Urquiza, S.C.
Member firm of Deloittte Touche
Tohmatsu Limited

C.P.C. Juan Carlos Reynoso Degollado
February 27, 2014

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2013 and 2012
(In Mexican pesos)

Assets		**2013**		**2012**
Current assets:				
Cash and cash equivalents	$	1,460,307,218	$	2,944,089,658
Accounts receivable		59,099,892		14,583,681
PEMEX-Gas y Petroquímica Básica - Related Party		222,621,208		218,964,199
TAG Pipelines, S. de R.L. de C.V. - Related Party		-		13,758,532
Recoverable taxes, mainly Value Added Tax		350,469,115		135,852,946
Other accounts receivable and advanced payments		27,887,047		15,893,628
Total current assets		2,120,384,480		3,343,142,644
Pipelines, rights-of-way, equipment and construction work in process - net		6,919,804,812		4,662,201,249
Other assets		3,235,329		2,147,778
Total	$	9,043,424,621	$	8,007,491,671
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable to suppliers and creditors	$	232,909,448		104,961,261
Current portion of long-term debt				249,021,874
Derivative financial instrument				5,165,166
Direct employee benefits		12,750,079		8,782,654
Cumulative taxes and expenses payable		5,202,368		5,282,137
Total current liabilities		250,861,895		373,213,092
Pipelines, Rights-of-Way and Equipment Retirement Obligations		30,418,667		28,284,336
Deferred income tax		650,750,498		537,588,499
Employee Benefits		8,028,981		7,140,838
Total liabilities		940,060,041		946,226,765
Stockholders' equity:				
Capital stock		1,123,312,887		1,123,312,887
Retained earnings		6,499,867,366		5,547,982,680
Valuation of financial instrument		-		(2,581,314)
Cumulative currency translation effect		480,184,327		392,550,653
Total stockholders' equity		8,103,364,580		7,061,264,906
Total	$	9,043,424,621	$	8,007,491,671

The accompanying notes form an integral part of the consolidated financial statements.

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

		2013		2012
Income from transportation services	$	1,829,863,682	$	1,775,825,900
Income from administrative and other services, net		127,903,160		118,433,117
Cost of transportation services		558,314,713		483,816,844
Other costs		15,222,684		26,918,865
Gross income		1,384,229,445		1,383,523,308
General expenses		192,088,454		182,410,776
Operating income		1,192,140,991		1,201,112,532
Comprehensive cost of financing				
Interest expense, net		(5,369,763)		(25,813,494)
Allowance for funds used during construction		182,267,342		109,015,748
Exchange (loss) gain		(7,034,175)		6,737,539
		169,863,404		89,939,793
Profit before taxes		1,362,0040,395		1,291,052,325
Income Taxes		410,119,709		193,523,109
Consolidated net income of the year	$	951,884,686	$	1,097,529,216
Other comprehensive income items				
Valuation of financial instrument		2,581,314		5,932,502
Effect of currency translation of financial statements		87,633,674		(547,578,970)
Consolidated comprehensive income of the year	$	1,042,099,674	$	555,882,748

The accompanying notes form an integral part of the consolidated financial statements.

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Consolidated Statement of Variations in Stockholders' Equity

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	Capital stock		Retained earnings	Valuation of financial instrument	Effect of currency translation of financial statements	Stockholders' equity
	Historical	Restatement				
Balance at beginning of 2012	$ 786,098,642	$ 337,241,245	$4,450,453,464	$ (8,513,816)	$ 940,129,623	$ 6,505,382,158
Comprehensive income:						
Valuation of financial instrument				5,932,502		5,932,502
Consolidated net income of the year			1,097,529,219			1,097,529,219
Effect of currency translation of financial statements					(547,578,970)	(547,578,970)
Consolidated comprehensive income of the year			1,097,529,219	5,932,502	(547,578,970)	555,882,748
Balance at December 31, 2012	786,098,642	337,241,245	5,547,982,860	(2,581,314)	392,550,653	7,061,264,906
Comprehensive income:						
Valuation of financial instrument				2,581,314		2,581,314
Consolidated net income of the year						951,884,686
Effect of currency translation of financial statements					87,633,674	87,633,674
Consolidated comprehensive income of the year			951,884,686	2,581,314	87,633,674	1,042,099,074
Balances at December 31, 2013	$ 786,098,642	$ 337,241,245	$6,499,867,366		$ 480,184,327	$ 8,103,364,580

The accompanying notes form an integral part of the consolidated financial statements.

Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries

Consolidated Cash Flow Statement

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	2013	2012
Operating activities:		
Cash received from customers	$ 2,324,976,709	$ 2,108,669,061
Business Flat Tax (IETU) and Income Tax (ISR) paid	(315,983,033)	(370,116,175)
Income Tax (ISR) paid on dividends	-	(13,821,705)
Recovery of insurance	63,688,992	-
Recovery of taxes	73,250,698	43,612,889
Payments to other goods and services suppliers	(1,109,714,533)	(647,660,437)
Net cash flows from operating activities	1,036,218,833	1,120,683,633
Investment activities:		
Interest received	1,717,172	1,210,203
Retirements of pipelines, rights-of-way and equipment	33,527,185	41,071,441
Acquisitions of pipelines, rights-of-way and equipment	(2,277,278,892)	(683,118,241)
Net cash flows from investments	(2,242,034,535)	(640,836,597)
Excess cash (obtained from) used in financing activities	(1,205,815,702)	479,847,036
Financing activities:		
Loan and interest payments	(255,523,858)	(299,670,152)
Net cash flows from financing activities	(255,523,858)	(299,670,152)
(Decrease) increase in cash and cash equivalents	(1,461,339,560)	180,176,884
Effects of changes in the value of cash and cash equivalents	(22,442,880)	(217,413,737)
Cash and cash equivalents at beginning of period	2,944,089,658	2,981,326,511
Cash and cash equivalents at end of period	$ 1,460,307,218	$ 2,944,089,658

The accompanying notes form an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

1. Significant Activities and Events

Gasoductos de Chihuahua, S. de R, L. de C. V. and Subsidiaries (“Gasoductos de Chihuahua” or the “Company”) is a corporation established under the laws in Mexico and is a 50% subsidiary of PEMEX-Gas y Petroquímica Básica ("PGPB"), a decentralized public company of Petróleos Mexicanos. The remaining 50% of the equity is owned by Sempra Gasoductos Holding, S. de R.L. de C.V., a wholly-owned subsidiary of Sempra Gasoductos México, S. de R.L. de C.V. (both incorporated in Mexico).

The Company concentrates approximately 90% of its reveries with its related party PEMEX-Gas y Petroquímica Básica (“PGPB”) at December 31, 2013 and 2012; therefore, the accompanying financial statements are not necessarily indicative of the conditions that would have prevailed or of the operating income or cash flows that the Company would have obtained in the absence of said affiliation.

The Company is a limited liability company, in which its partners are liable only to the extent of their capital contributions, but their interests are represented by partnership interest that are not freely negotiable

Gasoductos de Chihuahua and its subsidiary, Gasoductos de Tamaulipas, S. de R. L. de C.V. (“Gasoductos de Tamaulipas”) are engaged in providing natural gas transportation services. The subsidiary TDF, S. de R. L, de C. V. (“TDF”) is engaged in the pipeline transportation of liquid petroleum gas. Transportadora del Norte SH, S. de R. L. de C. V. (“TDN”) is the holding company of TDF and owns a storage plant in Zapotlanejo, Guadalajara for the supply of liquid petroleum gas ("LPG"). These activities are regulated by the Energy Regulation Commission (“CRE”).

At August 30, 2011, Transportadora el Encino, S. de R. L. de C. V. (Transportadora el Encino) and Gasoductos del Encino S. de R. L. de C. V. (Gasoductos del Encino) were constituted, being Gasoductos del Encino a 99.99% subsidiary of Transportadora el Encino. At April 27, 2012, at a General Members’ Meeting, a name change in the entities was approved, which was formalized on July 20, 2012 whereby the entities changed their names to Ductos y Energéticos del Sureste, S. de R. L. de C. V. (Ductos y Energéticos) and Gasoductos del Sureste, S. de R. L. de C. V. (Gasoductos del Sureste), respectively.

Gasoductos del Sureste is currently building an ethane gas transportation system, which will consist of the following segments: Segmento I Nuevo Pemex - Cactus, Segmento II Cactus-Complejo Etileno XXI y Segmento III Complejo Etileno XXI- Anillo Etano Área Coatzacoalcos.

Gasoductos del Noreste S, de R. L. de C. V., was incorporated on February 26, 2013, as a 99.99% subsidiary of Gasoductos de Chihuahua, S. de R L. de C. V. Gasoductos del Noreste is currently building a two-phase natural gas pipeline transportation system. In the first phase, the service will have a capacity of 1,000 Mcfd and in the second phase, two turbo-compressors will be added to increase the capacity to 2,100 Mcfd.

On October 27, 2013, Petróleos Mexicanos (PEMEX) publicly announced the award of Phase II of the Los Ramones project, which will divided the Los Ramones II gas pipeline into two sections: North and South. The North section, which includes 60% of the project, will be built and operated by its affiliate Tag Pipelines in association with Gasoductos de Chihuahua, in which the state-owned company participates as a joint venture partner with IEnova (a Sempra

affiliate). At the date of these financial statements, the partners for the implementation of the almost 300 kilometers of the system of the South section are still being analyzed.

The system will be 740 kilometers in length with a total investment of nearly US$1.8 billion, of which US$1.052 billion will be allocated to the North section, which will have 441 kilometers of pipeline and two compression stations between Los Ramones, in Nuevo León, and San Luis Potosi.

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 term of 30 years and which can be renewed for a term of 15 years. The Ruling authorized the Company to build the "Samalayuca Pipeline", which has been in operation since 1997. Also, on October 15, 2001, the CRE issued Ruling RES/185/2001, authorizing the Company to construct the n “Gloria a Dios” compression station, which commenced operations in 2001.

On September 12, 2002, the CRE issued Ruling SE/177/2002, granting Gasoductos de Tamaulipas permission to transport natural gas under permit number G/128/TRA/2002 for a term of 30 years and which can be renewed for a term of 15 years. On the same date, the CRE also authorized Gasoductos de Tamaulipas to build the "San Fernando Pipeline", which commenced operations in 2003.

On October 6, 2006, the CRE issued Ruling SE/280/2006, granting TDF permission to transport liquid petroleum gas under permit number G/173/TRA/2005 for a term of 30 years and which can be renewed for a term of 15 years. On the same date, the CRE also authorized TDF to build the Burgos-Monterrey pipeline ("LPG Burgos 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/ALM/2012, for a 30 year term. The permit may be renewed for additional terms of 15 years.

On 18 April 2013, the CRE awarded TAG Pipelines, S. A. de C. V. (TAG) a natural gas transportation permit number G/308/TRA/2013, and through Ruling RES/194/2013, dated May 23, 2013, the Commission authorized TAG to transfer the permit to Gasoductos del Noreste, S. de R, L. de C. V. (GDN) for a term of 30 years from the commencement date of commercial operation of the project.

The permits authorized by the CRE approved, among other matter, the general conditions for the rendering of the service, the tariff lists, the maximum revenues and the route of the pipelines proposed by the Companies, who must construct them in accordance with the works and investments program established in the aforementioned permits. In accordance with the Rulings, there will be a five-yearly review of the maximum revenues, considering the investment made by the Company and if applicable, the new revenue levels and the respective tariffs will be adjusted.

Significant Events -

a. On September 21, 2012, TDF issued a notice of unforeseen circumstance or event of force majeure as a result of the explosion and fire that occurred on September 18, 2012 at Pemex Exploración y Producción's Gas Receiving and Condensing Center, which caused damage to the Burgos pumping station on the 12" diameter Burgos - Monterrey LPG Pipeline (owned by TDF). In response to the above, PEMEX-Gas y Petroquímica Básica (“PGPB”) (the system User and Operator) issued a notice of the suspension of the transportation service. The respective notice was sent to the CRE on September 28, 2012.

   On November 15, 2012, TDF issued a notice to PGPB, stating that the repair works to the Burgos pumping station on the 12" diameter Burgos - Monterrey LPG Pipeline allowed it to perform the packing process and system verification. Therefore, TDF considered the unforeseen circumstance or event of force majeure mentioned in the previous paragraph to be

concluded and the transportation services were resumed on November 16, 2012. On November 30, 2012, TDF informed CRE of the resumption of operations.

In 2013, TDF collected the amount of $48,597,567 for insurance claims for this kind of eventuality, which was recorded as part of the operation and presented in an "Other Income" line item.

2. Basis for Presentation

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 to the MFRS may not conform with accounting principles generally accepted in the country of use.

a. Monetary unit of the consolidated financial statements **-** The consolidated financial statements and notes as of December 31, 2013 and 2012, and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

b. Consolidation of financial statements - The consolidated financial statements include the financial statements of Gasoductos de Chihuahua and its controlled subsidiaries, the stockholding in their capital stock is shown below:

Company	**Stockholding 2013**	**Stockholding 2012**	**Activity**
Gasoductos de Tamaulipas, S. de R. L. de C. V.	99.99%	99.99%	Transporting, distributing and marketing natural gas.
Gasoductos Servicios, S. de R. L. de C. V.	99.99%	99.99%	Rendering administrative, financial, accounting and commercial services to related parties.
Transportadora del Norte SH, S. de R. L. de C. V. and subsidiary	99.99%	99.99%	Liquid petroleum gas storage and holding company of the companies involved in the Burgos-Monterrey LPG transportation project.
Ductos y Energéticos del Sureste, S. de R. L. de C. V. and subsidiary	99.99%	99.99%	Holding company of the companies involved in the Cangrejera Gas Processing Complex (GPC) for the Ethane transportation project.
Gasoductos del Noreste, S. de R.L. de C. V	99.99%	-	Los Ramones I natural gas transportation project.

Inter-company balances and transactions have been eliminated from these consolidated financial statements.

c. **Translation of financial statements** - Since the Company determined the U.S. Dollar as its functional currency, the financial statements have been translated into the reporting currency, in accordance with Mexican Financial Reporting Standards ("MFRS"). The financial statements are translated to Mexican pesos using the following methodologies:

For foreign transactions whose functional currency is the US Dollar, the financial statements prepared in the recording currency are translated into the functional currency using the following exchange rates: 1) the closing exchange rate prevailing 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 prevailing on the accrual date of revenues, costs and expenses, except those arising from non-monetary items that are translated at the historical exchange rate for the related non-monetary item. The effects of translation are recorded under the comprehensive financing income. The following exchange rates are then used to translate the financial statements from the functional currency to the Mexican pesos, the reporting currency; 1) the closing exchange rate prevailing at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate prevailing at the accrual date of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

d. **Comprehensive income** - Comprehensive income represents changes in stockholders' equity during the year for items other than distributions or movements of capital contributions and is comprised of the net consolidated income of the year plus other income items that represent the profit or loss of the same period, which are presented stockholders' equity without affecting the statements of income. Other comprehensive income items are represented by the effects of the valuation of derivative financial instruments with cash flow characteristics and the effects of the translation of the financial statements.

e. **Classification of costs and expenses -** Costs and expenses are classified and presented based on their function; therefore, the cost of services is presented separately from other costs and expenses.

f. **Operating income -** The operating income is obtained by subtracting the service cost and general expenses from service revenues. Although MFRS (NIF) B-3, Statement of Income, does not require the inclusion of this line item in the consolidated statements of income, it has been included for better understanding of the Company’s economic and financial performance.

3. Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with and therefore comply with the Mexican Financial Reporting Standards. Their preparation requires that Management make certain estimates and assumptions to value certain items reported in the consolidated financial statements and to make the disclosures required in same. However, the actual results may differ from such estimates. The Company’s management, on applying professional judgment, considers that the estimates and assumptions made were adequate under the circumstances. The Company applies the following significant accounting policies:

a. Accounting changes:

Beginning January 1, 2012, the Company adopted the following new MFRS:

MFRS B-3, Statement of Comprehensive Income
MFRS B-4, Statement of Changes in Stockholders' Equity
MFRS B-6, Statement of Financial Situation
MFRS B-8, Consolidated or Combined Financial Statements
Improvements to Mexican Financial Reporting Standards in 2013

Some of the main changes established by these standards are:

MFRS B-3, Statement of Comprehensive Income - Provides the option to present a) a single comprehensive income statement that contains the net profit or loss line items, as well as other comprehensive income (OCI) and equity in OCI of other companies, or
b) two statements: the statement of income (or operations), which should include only the net profit or loss line items, and the statement of other comprehensive income (loss), which should start from net profit or loss and present the OCI items and equity in OCI of other companies. The standards also establish that items such as non-ordinary must not be presented separately whether in the financial statement or in the notes to the consolidated financial statements.

MFRS B-4., *Statement of changes in stockholders' equity* - Establishes the general standards for the presentation and structure of the statement of changes in stockholders' equity, such as reflecting the retrospective adjustments for accounting changes and the correction of errors that affect the initial balances of each stockholders' equity item and present the comprehensive income in a single line item and breaking down all the items that compose it, in accordance with MFRS B-3.

MFRS B-6, *Statement of financial position* **-** A single standard that establishes the structure of the statement of financial position, as well as the standards for presentation and related disclosures.

MFRS B-8, *Consolidated or combined financial statements* — Modifies the definition of control. The existence of control of one company over another is the basis for requiring the consolidation of the financial information. This new definition could lead to having to consolidate some companies that before were not considered as controlled and otherwise, other companies in which it is considered that there is no control may not be consolidated.

This MFRS establishes that a company exercises control over another when it has power over it to manage its relevant activities; is exposed to or has the right to variable returns from such participation and has the ability to affect said returns. It introduces the concept of protective rights, which are defined as those that protect the participation of the non-controlling investors but does not grant power. The standard includes the principal figure and agent the main investor being the principal with the right to make decisions and the agent, who takes decisions on behalf of the principal; therefore that agent cannot the party who exercises control. It eliminates the term 'specific-purpose company' and introduces the term 'structured company', this being understood as a company designed in such a manner that the voting or similar rights are not the determining factor in deciding who controls it.

Improvements to MFRS 2013- The main improvements that generate accounting changes that must be recognized retrospectively in fiscal years that start from January 1, 2013, are:

MFRS C-5, *Advanced payments*, Bulletin C-9, *Liability*, *provisions, contingent assets and liabilities and commitments* and Bulletin C-12, *Financial instruments with characteristics of liabilities, capital or both* - These standards establish that the amount of the costs of issuing obligations must be presented as a reduction of the corresponding liability and charged to income based on the effective interest method.

Bulletin *C-15, Impairment in the value of the long-lived assets and their retirement* - In the case of discontinuance of an operation, the obligation to restructure the balance sheets of prior periods that are presented for comparative purposes is eliminated.

MFRS D-4, *Income Taxes* - This standard recognizes that income taxes (both incurred and deferred) must be classified and presented based on the transaction or event that caused the taxes, which must be recognized in the income of the period, except to the extent that they have emerged from a transaction or event that is recognized in other comprehensive income or directly in stockholders' equity.

Bulletin D-5, *Leases*- This Bulletin establishes that lease payments are non-refundable and must be deferred during the term of the lease and charged to income in proportion with the recognition of income and expenditure relating to the lessor and lessee, respectively.

In addition, Improvements were issued to MFRS 2013 that do not generate accounting changes and mainly establish clearer definitions of terms.

b. ***Reclassifications*** **-** Certain items of the financial statements for the year ending December 31, 2012, have been reclassified in accordance with the presentation used in 2013.

c. ***Recognition of the effects of inflation*** **-** The cumulative inflation of the three fiscal years prior to December 31, 2013 and 2012, is 11.80 % and 12.26 %, respectively. Therefore, the economic environment qualifies as non-inflationary in both fiscal years and consequently, the effects of inflation are no recognized in the accompanying consolidated financial statements. The inflation rates for the years ended December 31, 2013 and 2012 were 3.97 % and 3.57 %, respectively.

   From January 1, 2008, the Company discontinued the recognition of the effects of inflation in the financial statements; however, the assets, liabilities and stockholders' equity include the effects of restatement recognized through December 31, 2007.

d. ***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 readily 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 by investment funds.

e. ***Regulated operation*** **-** As mentioned in Note 1, the activities of Gasoductos de Chihuahua, Gasoductos de Tamaulipas, TDF, Transportadora del Norte and Gasoductos del Noreste are regulated by the Energy Regulation Commission ("CRE"). As a consequence, and in accordance with the provisions of MFRS A-8, "Supplementary", the Company decided to apply, on a supplementary basis, Standard No. 71, "*Accounting for the Effects of Certain Types of Regulation*" ("Standard 71 ") of the Financial Accounting Standard Board ("FASB") of the generally accepted accounting principles in the United States of America ("USGAAP"). Therefore, the assets and liabilities that result from the process of determining regulated rates are recorded, which would not be recorded under the rules of financial information reporting standards applicable to non-regulated operations. The determination of tariffs by the CRE considers the investment budget prepared and presented to the Regulator by the Company. The Company regularly evaluates the applicability of Standard 71 and considers factors such as changes in the regulations and the impact of competition. If cost-based regulation ends or competition increases, the Company may write-off its assets recorded on the basis of this standard.

f. ***Allowance for funds used during construction*** **-** Based on Standard 71, described above, the allowance for funds used during construction ("AFUDC") represents the estimated debt and equity cost of funds necessary to finance construction of assets, authorized by the CRE. This allowance is capitalized as part of the construction costs of the equipment of the pipeline and charged to the results of the year. Once the construction is complete, the Company, including a fair return, by including them in the base tariffs calculation and the depreciation of the pipeline.

   In the Rulings issued by the CRE, discussed in Note 1, one of the considerations indicates that the particular characteristics of the project subject to the Rulings were taken into account and that a Weighted Average Cost of Capital ("WACC") or an Internal Rate of Return ("IRR") was applied in each project, for the determination of the applicable tariffs that were approved in said Rulings. The afore-mentioned WACC and the IRR assume a certain financial structure and a cost of debt and equity. Consequently, the Entity believes that the Rulings provide reasonable

assurance as to the existence of an asset based on the financial costs of funds used that have been capitalized during construction.

During the periods ended December 31, 2013 and 2012, Transportadora del Norte, S. de R. L. de C. V. and subsidiary capitalized an amount of $14,029,997 and $109,015,748 for this item, respectively and Gasoductos del Noreste, S. de R. L. de C. V. capitalized an amount of $168,237,345 in 2013.

g. ***Construction work in process*** – Construction work in process is initially recorded at acquisition cost. The Company capitalizes all direct construction costs up to the start-of-operations date, as well as the indirect costs authorized in the documents considered in the determination of tariffs as explained in Note 1, such as the engineering and funds costs used in the construction.

h. ***Pipelines, rights of way and equipment*** -Pipelines, rights-of-way and equipment are recorded at acquisition or construction cost. The balances from acquisitions of domestic origin made through December 31, 2007, were restated by applying National Consumer Price Index ("INPC") factors valid to that date. The acquisition cost of fixed assets of foreign origin was restated through the same date by applying the inflation rate of the country of origin. The fluctuation of the Mexican peso in relation to the currency of said country was also considered.

Depreciation is calculated in accordance with the straight-line method based on the following depreciation and amortization percentages:

	Depreciation and amortization percentages:
Pipelines, storage terminal and rights of way	3.3 to 5.0
Structures, compression and pumping stations	3.3 to 5.0
Allowance for funds used during construction	
Measuring and regulation equipment	6.7
Computer equipment	25.0 to 30.0
Office furniture and equipment	10.0
Transportation equipment	25.0
Improvements to leased premises	11.0
Other assets	3.3 to 5.0

Due to the adoption of MFRS B-15, non-monetary assets reflect the amount on Mexican Pesos of historical US Dollars at the end of 2013 and 2012, respectively.

i. ***Impairment of long-lived assets in use*** - The Company 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 on retirement. Impairment is recorded when the carrying amounts exceed the greater of the afore-mentioned amounts. The impairment indicators considered for these purposes include 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 income, which in percentage terms in relation to revenues, are substantially higher than those of previous years, obsolescence, reduction in the demand for the services rendered, competition and other legal and economic factors. No impairment indicators were identified in 2013 and 2012.

j. ***Financial risk management policy*** - The Company's activities expose it to a number of financial risks, including market risk, which includes foreign exchange, interest rate and price risks, such as investments in share certificates and commodity prices futures), credit risk and liquidity risks. The Company seeks to minimize the potential negative effects of these risks to its financial performance through an overall risk management program. The Company uses derivative and non-derivative financial instruments to hedge against certain exposures to financial risks embedded in the balance sheet (recognized assets and liabilities) and off-balance sheet risks (firm commitments and transactions forecast as highly likely to occur). Financial risk management and the use of derivative and non-derivative financial instruments are governed by the corporate policies approved by the Board of Directors and are implemented by the Company's Treasury Department. The Company identifies, evaluates and hedges against the exposures of its operating subsidiaries in a centralized manner. The Board of Directors has approved general written policies for the management of financial risks, as well as policies and limits associated to other specific risks and guidelines for permissible losses when the use of certain derivative financial instruments is approved as hedges or they do not qualify for hedging purposes, but instead for trading purposes, such as in the case of interest rates swaps. Compliance by the Company's administration with the established policies and exposure limits is reviewed by Management on an on-going basis.

k. ***Derivative financial instruments*** - The Company obtains financing under different conditions. When these are at variable rates, in order to reduce exposure to risks of volatility in interest rates, the Company contracts derivative financial interest rate swap instruments that convert its interest payment profile from variable to fixed rate. Derivative instruments are only traded with institutions of recognized financial solvency and when limits for each institution have been established. The Company's policy is not to perform derivative financial instruments transactions for the purpose of speculation.

The Company recognizes all assets or liabilities arising from derivative financial instruments transactions conducted on the balance sheet at fair value, regardless of the purpose of their tenure. Fair value is determined based on recognized market prices and when prices are not listed on a market, valuation techniques accepted in the financial field are used for its determined.

When derivatives are entered into in order to hedge risks and they meet all the hedging requirements, their designation is documented at the beginning of the hedging transaction, describing the transaction's objective, characteristics, accounting treatment and how the effectiveness of the instrument will be measured.

Derivatives designated as hedges recognize changes in the valuation according to the type of hedge in question: (1) for fair value hedges, changes in both the derivative instrument and the hedged item are stated at fair value and recognized in income; (2) for cash flow hedges, changes in the effective portion are temporarily recognized as a component of other comprehensive income and is then reclassified to income when affected by the hedged item. The ineffective portion of the change in fair value is immediately recognized in income; (3) when the hedge is related to an investment in a foreign subsidiary, the ineffective portion is recognized in comprehensive income as part of the cumulative translation adjustment. If it is a derivative financial instrument, the ineffective portion of the gain or loss on the hedging instrument is recognized in the income of the period and if it is not, it is recognized in comprehensive income until disposal or the transfer of the investment.

The Company discontinues hedge accounting when the derivative instrument matures, is sold, canceled or exercised, when the derivative instrument does not reach a high level of effectiveness to offset the changes in fair value or cash flows of the hedged item, or when the Company decides to cancel its designation as a hedge.

On discontinuing hedge accounting in the case of cash flow hedges, the amounts recorded in stockholders' equity as a component of income (or loss), remain in capital until the time at which the effects of the forecast transaction or firm commitment have an effect on income. If it is unlikely that the firm commitment or forecast transaction will occur, the gains or losses accumulated in other income (or loss) are immediately recognized in income. When the hedge of

a forecast transaction has proven satisfactory, but subsequently the hedge fails the effectiveness test, the cumulative effects in income (or loss) in stockholders' equity are charged proportionately to income to the extent that the forecast asset or liability affects incomes.

The Company's contracts meet the characteristics of embedded derivatives; however, since these cannot be separated from the host contract, they were not evaluated or recorded, in accordance with the guidelines of Bulletin C-10.

The Company canceled the debt and derivative financial instruments on March 21, 2013.

l. ***Provisions*** - Provisions are recognized when a current obligations arises as a result of a past event that will probably result in the disbursement of economic resources and that can be reasonably estimated.

At December 31, 2013 and 2012, the provision for the retirement of pipelines, rights of way and equipment amounts to $30,418,667 and $28,284,336 , respectively.

SSC provision: The Specific Service Contract (SS) fund relates to the maximum provision authorized under the operation and maintenance contract, with which specific services contracts will be entered into for the acquisition of supplies, spare parts and the rendering of any maintenance service for the subsystems.

m. ***Employee benefits*** **-** Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by employees, which include all kinds of remunerations accrued, as follows:

i. Direct employee benefits - Calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. Direct employee benefits mainly include Statutory Employee Profit Sharing (PTU) payable, paid absences, such as vacations add vacation premiums, as well as incentives.

ii. Employee benefits for termination, retirement and other - Liabilities for seniority premiums, pensions, retirement payments similar to pension payments and termination of the employment relationship are recorded as accrued and are calculated by independent actuaries based on the projected credit unit method using nominal interest rates.

iii. Statutory Employee Profit Sharing (PTU) - PTU is recorded in the income of the year in which incurred. Deferred PTU is calculated based on the temporary differences that result from the comparison of the book and tax values of assets and liabilities, and is recognized only when it is likely that a liability will be paid or a benefit generated and there is no indication that said situation will change in such a manner that this liability or benefit will not materialize.

As a result of the 2014 Fiscal Reform, at December 31, 2013 the PTU is calculated based on taxable income in accordance with section I of Article 10 of the Income Tax Law.

n. ***Income taxes*** **-** Income tax (ISR) and Single-Rate Business Flat Tax (IETU) are recorded in the income of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections, the Company determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax amount it expects to pay. Deferred taxes are recognized by applying the rate of the temporary differences that result from the comparison of the book and tax values of assets and liabilities, and including, if any, future benefits from tax loss carry forwards and certain tax credits. Deferred tax asset are only recorded when there is high probability that they can be recovered.

As a consequence of the 2014 Fiscal Reform, at December 31, 2013, deferred IETU is no longer recognized.

o. ***Revenue recognition*** - Revenues are recognized in the months in which gas transportation services are rendered.

Service revenues are recognized in the period in which the risks and benefits are transferred to the consumers who acquired them, which typically occurs the services required are rendered in compliance with their requests.

The service cost, on being mainly taxes, wages and salaries, is recorded directly in the administration expenses line in the statement of income.

p. Recognition of transportation service cost - The transportation service costs is recognized in the month in which the services are rendered.

4. Cash and cash equivalents

	2013	2012
Cash	$ 1,292,864,771	$ 969,602,761
Cash equivalents - investment funds	167,442,447	1,974,486,897
Total	$ 1,460,307,218	$ 2,944,089,658

5. Derivative financial instrument

In January 2003, Gasoductos de Tamaulipas entered into a swap contract to convert its variable interest rate debt, which matures on October 15, 2013 to a fixed interest rate debt.

At December 31, 2012, the notional value and interest rates paid and received for the commercial bank line of credit swap are shown below:

Contract date	Notional value (USD)	Interest rate	
		Received	Paid
January 22, 2003	13,461,500	LIBOR	4.42%

The notional value as of December 31, 2012 is US$ 13,461,500, which covers the entire outstanding debt with the commercial bank, while the maturity date coincides with that of the liability covered. The entire interest rate paid was recorded in the cost of construction of the pipeline during the construction period and as part of the comprehensive financing income from the commercial operation date, which was on November 12, 2003.

The fair value of the financial instrument is determined based on the market values prevailing at the reporting date. At December 31, 2012, the fair value of the financial instrument amounts to $(5,165,166), which was charged as a liability to the complementary account in stockholders' equity, thereby passing the effect of the period through comprehensive income. The effect during the period December 31, 2013 and 2012 is $2,581,314 and $5,932,502, respectively. The Company canceled the debt and derivative financial instruments early on March 21, 2013.

6. **Pipelines, Rights-of-Way, Equipment and Constructions in Process - net**

	December 31, 2013	December 31, 2012	Beginning 2012
a) Investment:			
Structures, compression and pumping stations	$2,895,129,028	$2,841,747,949	$3,097,638,178
Pipelines and rights-of-way	1,841,386,346	1,527,775,280	1,583,886,967
Storage terminal	654,321,305	-	-
Allowance for funds used during construction	783,290,064	597,529,473	532,581,494
Other assets	511,188,859	421,671,799	489,729,090
Metering and regulation equipment	8,195,251	9,570,971	8,760,675
Transportation equipment	10,762,822	6,722,715	6,332,778
Office furniture and equipment	16,653,784	11,345,821	4,217,629
Computer equipment	7,600,155	6,370,890	5,550,946
Communication equipment	2,339,538	1,796,980	1,975,442
	6,730,867,152	5,424,531,878	5,730,673,199

b) Cumulative depreciation and amortization	December 31, 2013	December 31, 2012	Beginning 2012
Structures, compression and pumping stations	970,364,959	867,185,249	818,090,633
Pipelines and rights-of-way	521,805,035	457,467,433	425,242,259
Allowance for funds used during construction	163,105,224	140,871,295	129,177,695
Other assets	116,049,066	93,126,235	76,220,368
Metering and regulation equipment	4,868,956	4,400,042	4,144,362
Transportation equipment	4,368,009	2,845,569	1,998,961
Office furniture and equipment	3,988,764	2,666,225	1,918,794
Computer equipment	4,564,274	4,647,702	4,295,694
Communication equipment	472,990	257,535	64,686
	1,789,587,277	1,573,467,285	1,461,153,452
Construction in process	1,765,399,322	640,203,232	64,799,855
Land for send-out installations	63,696,971	35,954,062	30,313,247
Improvements to leased premises	9,289,833	6,399,564	2,589,205
Inventory of gas in pipeline	69,738,308	63,228,425	71,791,014
Material and parts	70,400,503	65,351,373	84,436,310
	1,978,524,937	811,136656	253,929,631
Total	$ 6,919,804,812	$ 4,662,201,249	$ 4,523,449,378

7. **Debt**

As of December 31, 2012, the subsidiary Gasoductos de Tamaulipas has two lines of credit payable in US Dollars, which have the following main characteristics:

Eximbank - A line of credit with Eximbank, with Citibank, N.A. acting as the principal agent. The

line of credit is for an amount of up to US$70,828,414 over a term of ten years beginning on October 15, 2003, with semi-annual payments. At December 31, 2012, the outstanding amount is $98,517,639, equivalent to US$ 7,572,397.

The interest rate of this line of credit is at an annual fixed rate of 4.70%.

Commercial line of credit - A line of credit with eleven commercial banks, in which Citibank, N.A. acts as the principal agent. The line of credit is for an amount of up to US$116,800,000 over a term of ten years with semi-annual payments commencing on October 15, 2003.

At December 31, 2012, the outstanding amount is $150,504,235 pesos, equivalent to US$ 11,568,261. The commercial line of credit bears interest at the London Interbank Rate ("LIBOR") plus 1.875% per year during the construction period, LIBOR plus 2.125% from the date of commercial startup until the fourth anniversary, LIBOR plus 2.375% from the fourth anniversary to the eighth anniversary and LIBOR plus 2.625% from the eighth anniversary to maturity.

Gasoductos de Tamaulipas granted security interest for the debt payment; above all the right of title to ownership pursuant to the following assets: contracts, inventories, equipment and general financial assets. Additionally, certain financial ratios must be maintained (debt hedging ratios), which to date, have been met.

The Company canceled the debt and derivative financial instruments early on March 21, 2013.

8. Employee Benefits

The net period cost for obligations resulting from the pension plan and seniority premiums was $3,586,693 and $4,587,801 in 2013 and 2012, respectively. Other disclosures required under the accounting provisions are not considered material.

9. Pipelines, Rights-of-Way and Equipment Retirement Obligations

The obligations associated with the retirement of assets are recognized when there is a contractual or legal obligation and a reasonable estimate can be made of the quantification. The dismantling activities to be performed of the specialized machinery include the disconnection from the power supply and the purging of gas, blocking of pipes, keeping records of disconnected pipes, etc. At December 31, 2013 and 2012, the Company recorded the liabilities for asset retirement based on Official Mexican Standard NOM-117, as shown below

	2013	2012
Samalayuca Pipeline	$ 3,565,703	$ 3,315,511
Gloria a Dios ("GAD") compression station	4,236,051	3,938,817
San Fernando system	16,564,664	15,402,385
Burgos Monterrey LPG	6,052,249	5,627,623
Total	$ 30,418,667 $	$ 28,284,336

The estimated costs of these obligations have been recorded at the present value of future cash flows based on the effective interest method using the Company's risk-free rate of credit as an appropriate discount rate. This rate relates to 7% in the Grupo Gasoductos' companies. The remaining years of life of the projects were also considered, as follows: Samalayuca Pipeline 16 years; Gloria a Dios ("GAD") compression station 11 years, San Fernando system 22 years and Burgos Monterrey LPG 17 years.

10. Stockholders' Equity

a. The Company's capital stock is divided into two partnership interests, which represent the number of partners of the Company. These partnership interests are composed of Series "A" and Series "B", that include both fixed and variable capital.

At December 31; 2013 and 2012, the fixed capital stock amounts to $59,771,617 ($41,824,856 at par value) and the variable capital stock amounts to $1,063,541,270 ($744,273,786 at par value), which are fully subscribed and paid:

	Fixed capital stock	Variable capital stock	Total
PGPB	$ 20,912,428	$ 372,136,893	$ 393,049,321
Sempra Gasoductos Holding, S. de R.L. de C.V	20,912,428	372,136,893	393,049,321
	$ 41,824,856	$ 744,273,786	$ 786,098,642

b. Retained earnings include the statutory legal reserve. The General Corporation and Partnership Law requires that a minimum of 5% of the net income of the year be separated to form the legal reserve, until the amount of the reserve reaches 20% of the capital stock at par value. The statutory legal reserve may be capitalized, but must not be distributed unless the Company is dissolved, and must be reconstituted when decreased for any reason. At December 21, 2013 and 2012, the amount of the statutory legal reserve amounts to $157,219,728 at par value.

c. The distribution of the stockholders' equity, except for the restated amounts of stockholders' equity contributed and fiscal retained earnings will be subject to income tax payable by the Company at the rate prevailing at the date of the distribution. The tax paid on said distribution may be credited against the income tax of the year in which the tax is paid on dividends and in the two immediately following fiscal years against the tax of the year and the estimated tax payments of same.

d. The balances of the fiscal accounts of stockholders' equity at December 31, are:

	2013	**2012**
Capital contribution account	$ 1,426,224,998	$ 1,371,765,892
Net tax profit account (CUFIN)	4,580,981,622	3,042,599,072
Total	$ 6,007,206,620	$ 4,414,364,964

11. Foreign currency balances and transactions

a. At December 31, the foreign currency monetary position is as follows:

	2013	**2012**
US dollars		
Monetary assets	109,519,421	243,393,995
Monetary liabilities	(1,984,638)	(33,885,558)
Long position	107,534,783	209,508,437
Equivalents in Mexican Pesos	$ 1,406,178,590	$ 2,725,725,716

b. Foreign currency transactions were as follows:

	(In US dollars)	
	2013	**2012**
Income from transportation services	130,604,173	124,461,738
Services received	18,486,471	16,294,159
Interest expense	588,316	2,051,901
Allowance for funds used during construction	13,972,467	8,299,608
Interest income	4,077	5,085
Other income	1,914,163	1,276,504

c. The following exchange rates were valid at the dates of the financial statements and the audit opinion:

	December 30, 2013	December 31, 2012	February 27, 2014
US dollars	$ 13.0765	$ 13.0101	$ 13.2992

12. Related-Party transactions and balances

a. The following related-party transactions were performed during the normal course of operations:

	2013	2012
Income from transportation services (PGPB)	$1,689,703,232	$ 1,635,037,955
Income from administrative services (TAG Pipelines)	42,672,040	57,435,049
Operation and maintenance services received	146,671,635	128,009,253
Reimbursement of PGPB expenses	$ 3,912,570	$ 3,884,983

b. On December 13, 2013, the Company entered into a Amendment Agreement of the firm base TF-1 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with PGPB on December 11, 2009, for a reserved firm-base capacity of 40 billion cubic feet daily. The Amendment Agreement provides for a tariff and a term of one year, as well as automatic annual renewal.

c. On December 13, 2013, the Company entered into a Amendment Agreement of the firm base TF-2 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with PGPB on December 11, 2009, for a reserved firm-base capacity of 80 billion cubic feet daily. The Amendment Agreement provides for a tariff and a term of one year, as well as automatic annual renewal.

d. On December 13, 2013, the Company entered into a Amendment Agreement of the firm base TI-2 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with PGPB on December 11, 2009, for a reserved firm-base capacity of 80 billion cubic feet daily. The Amendment Agreement provides for a tariff and a term of one year, as well as automatic annual renewal.

e. On November 27, 1998, Gasoductos de Chihuahua entered into a contract with PGPB, through which it receives operation and maintenance services for the natural gas transportation system. This contract stipulated a termination date of April 1, 2009, and the possibility of annual renewal. This contract has been renewed each year in the same conditions.

f. On December 19, 2001, Gasoductos de Tamaulipas entered into a contract with PGPB, through which it receives renders natural gas transportation services. This contract has a term of 20 years from the commercial operation date, which is November 12, 2003.

g. On May 2, 2002, Gasoductos de Tamaulipas entered into a contract with PGPB, through which it receives operation and maintenance services for the natural gas transportation system. This contract has a term of 20 years from the commercial operation date.

h. On December 15, 2005, TDF entered into an LPG Transportation Service Agreement (TSA) with PGPB. This contract has a term of 20 years from the commercial operation date.

i. On December 15, 2005, TDF entered into a contract with PGPB, through which it receives operation and maintenance services for the liquefied gas transportation system. This contract has a term of 20 years from the commercial operation date.

j. On February 17, 2013, TDN entered into a contract with PGPB, through which it renders storage services for the supply of liquid petroleum gas. This contract has a term of 15 years from the commercial operation date.

k. On February 21, 2012, TDF entered into a contract with PGPB, through which it receives operation and maintenance services for the liquid petroleum gas transportation system. This contract has a term of 20 years from the commercial operation date.

l. On December 13, 2012, GDS entered into a contract with PGPB, through which it renders ethane

transportation services. This contract has a term of 21 years from the commercial operation date of the first segment.

m. On July 19, 2013, GDN entered into a contract with PGPB, through which it renders natural gas transportation services. This contract has a term of 25 years from the commercial operation date of the pipeline.

n. On September 23, 2011, Gasoductos Servicios, S. de R.L. de C.V. (GS) entered into a service contract with MGI Supply, Ltd (MGI). The profit margin on the costs of the services billed will be **5%.** This contract has a term of one year from the signing date. MGI has the option to renew it for an equal term on written notice given sixty days in advance to GS.

o. On April 18, 2012, an Amendment Agreement to the service contract was signed by and between MGI and GS. In the agreement, MGI agreed to assign all the rights and obligations stipulated in the service contract to TAG Pipelines, S. de. R.L. de C.V.

13. Income from administrative and other services:

	Year ended December 31,	
	2013	**2012**
Administrative services	$ 46,478,671	$ 57,435,049
Cash out	6,190,135	7,553,342
Reimbursement of PGPB expenses	3,912,570	3,884,983
Recovery of insurance	63,703,915	-
Restated taxes	3,376,408	43,596,314
Other income, net	4,241,461	5,963,429
Other income	$ 127,903,160	$ 118,433,117

14. Other costs

	Year ended December 31,	
	2013	**2012**
Cost of sale of fixed assets	15,056,727	18,203,972
Social works	165,957	8,714,893
	$ 15,222,684	$ 26,918,865

15. Income Tax

The Company is subject to the payment of Income Tax (ISR) and Single-Rate Business Flat Tax (IETU).

The ISR rate during 2013 and 2012 was 30%. Pursuant to the new Income Tax Law for 2014, the ISR rate will continue to be 30% in 2014 thereafter.

In terms of the accounting recognition of the issues included in the 2014 Fiscal Reform related to income tax, the Mexican Board for Research and Development of Financial Reporting Standards ("CINTF") issued IFRS 20 "Accounting Effects of the 2014 Fiscal Reform", effective from December 2013.

Single-Rate Business Flat Tax (IETU) - Repealed in 2014; therefore, this tax was payable until December 31, 2013, both on income and deductions and certain tax credits based on the cash flows of each fiscal year. The rate was 17.5%.

The Asset Tax Law was repealed in 2008, thereby permitting, under certain circumstances, the recovery of this tax in the ten fiscal years immediately preceding the year in which ISR was paid for the first time in accordance with the fiscal provisions.

The income tax incurred will be the greater of Income Tax (ISR) and Single-Rate Business Flat Tax (IETU).

Through 2012, based on financial projections, the Company identified that it would pay ISR and one of its subsidiaries incurred IETU circumstantially. Based on the foregoing, the Company calculated both deferred ISR and IETU and recognized that deferred ISR represented the major liability. Beginning 2013, only the deferred ISR is calculated due to the repeal of the IETU.

Income tax and the reconciliation of the legal rate and the effective rate expressed in amounts and with the percentage of earnings before income tax, are as follows:

	2013		2012	
	Income tax payable	**% rate**	**Income tax payable**	**% rate**
Pre-tax profit	$1,362,004,395		$1,291,052,325	
Tax payable	296,994,538		302,578,327	
Deferred taxes	113,125,171		(109,055,218)	
Total income tax	410,119,709	30%	193,523,109	15%
Effects of inflation	(14,333,012)	(1)%	30,194,520	2%
Non-deductible and other	7,944,882	-	(5,027,862)	-
Non-cumulative income	4,869,740	1%	168,625,931	13%
	$ 408,601,319	30%	$ 387,315,698	30%

a. The main items that give rise to the deferred IT liability balance are:

	2013	2012
Provisions	$ (10,855,014)	(1,402,614)
PTU liability	(532,688)	(817,083)
Pipelines, rights-of-way and equipment, net	769,561,412	604,222,484
Insurance	5,084,782	8,020,197
Specific Services Contract ("SSC") fund provision	(27,390,497)	(21,699,408)
Operation and maintenance	(2,598,908)	(1,549,552)
Tax losses	(82,518,589)	(49,185,525)
	$ 650,750,498	$ 537,588,499

b. The benefits of restated tax loss carry forwards for which the deferred IT asset has been recognized can be recovered subject to certain conditions. The expiration dates and restated amounts as of December 31, 2013, are:

Expiration date	Tax loss carryforwards
2014	$ 61,691
2015	21,542
2016	232,823
2017	219,060
2018	189,734
2019	141,851
2020	116,691
2021	12,560,908
2022	47,401,522
2023	218,422,103
	$ 279,367,925

16. Commitments

At December 31, 2013, the Company has the following commitments, both directly and through its subsidiary companies:

a. On February 15, 2001, Gasoductos de Chihuahua entered into a contract with the Federal Electricity Commission ("CFE") for the increase of the maximum daily transportation capacity of natural gas to Chihuahua by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (the commencement date of the commercial operation of the station), with the right to renew for 5 years. The maximum daily capacity covered by this contract is 60 billion cubic feet daily ("bcfd").

b. On December 31, 2013, Gasoductos de Chihuahua entered into a firm base TF-1 natural gas Transportation Service Agreement (TSA) in its capacity of shipper with the CFE for a reserved firm-base capacity of 100 billion cubic feet daily. The contract provides for a regulated tariff and a term of one year.

c. On December 31, 2013, Gasoductos de Chihuahua entered into a firm base TI-1 natural gas Transportation Service Agreement (TSA) in its capacity of shipper with the CFE for a reserved firm-base capacity of 72 billion cubic feet daily. The contract provides for a regulated tariff and a term of one year.

d. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TF-1 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with the PGPB on December 11, 2009, for a reserved firm-base capacity of 40 billion cubic feet daily. The modifying agreement provides for a regulated tariff and a term of one year, as well as automatic annual renewal.

e. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TI-1 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with the PGPB on December 11, 2009, for a reserved firm-base capacity of 80 billion cubic feet daily. The Amendment Agreement provides for a regulated tariff and a term of one year, as well as automatic annual renewal.

f. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TI-2 natural gas Transportation Service Agreement (TSA), signed in its capacity of shipper with the PGPB on December 11, 2009, for a reserved firm-base

capacity of 80 billion cubic feet daily. The Amendment Agreement provides for a regulated tariff and a term of one year, as well as automatic annual renewal.

g. On December 19, 2013, Gasoductos de Chihuahua entered into the First Amendment Agreement of the firm base TI-1 natural gas Transportation Service Agreement (TSA), signed on December 21, 2012, in its capacity of shipper with Energía Chihuahua in order to extend the term to December 31, 2014. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TF-1 natural gas Transportation Service Agreement (TSA), signed on December 11, 2009, in its capacity of shipper, with PGPB (a related party) in order to extend the term to December 31, 2014. The Agreement has an interruptible base reserved capacity of 2.5 billion cubic feet daily.

h. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TI-1 natural gas Transportation Service Agreement (TSA), signed on December 11, 2009, in its capacity of shipper with PGPB (a related party) in order to extend the term to December 31, 2014.

i. On December 19, 2013, Gasoductos de Chihuahua entered into the Third Amendment Agreement of the firm base TI-2 natural gas Transportation Service Agreement (TSA), signed on December 11, 2009, in its capacity of shipper with PGPB (a related party) in order to extend the term to December 31, 2014.

j. Gasoductos de Tamaulipas has entered to natural gas Transportation and Compression Service Agreement with PGPB. This contract was signed on December 19, 2001 and involves a capacity of 1 billion cubic feet of natural gas daily. The contract contemplates a standard tariff as set forth in the CRE's natural gas regulations. This contract has a term of 20 years from the commercial operation date beginning November 12, 2003 (commencement date of commercial operations).

k. On December 15, 2005, TDF entered into an LPG Transportation Service Agreement (TSA) with PGPB. This contract is under the scheme of firm-base transportation service with a reserved transportation capacity of 4,470 cubic meters daily, equivalent to 30,000 barrels per day. The contract is for a term of 20 years from the commercial operation date with a regulated tariff.

l. On November 27, 1998, Gasoductos de Chihuahua entered into a contract with PGPB, through which it receives operation and maintenance services for the natural gas transportation system. This contract stipulated a termination date of April 1, 2009, and the possibility of annual renewal. This contract has been renewed each year in the same conditions.

m. On May 2, 2002, Gasoductos de Tamaulipas entered into a contract with PGPB, through which it receives operation and maintenance services for the natural gas transportation system. This contract has a term of 20 years from the commercial operation date.

n. On December 15, 2005, TDF entered into a contract with PGPB, through which it receives operation and maintenance services for the liquefied gas transportation system. This contract has a term of 20 years from the commercial operation date.

o. On October 28, 2011, Transportadora del Norte SH entered into a contract with Cobra Instalaciones México, S. A. C. V. (the "Contractor") for the construction, engineering and procurement of the storage facility to supply LPG in the municipality of Zapotlanejo, Guadalajara This contract stipulates that if the construction of this storage facility is not completed within 365 days after the work commencement notification, the contractor is required to pay Transportadora del Norte SH a penalty in the amount if US$10,000 for each day of delay for the first 60 days and US$ 30,000 per day of delay from the 61st to the 120th day.

p. On February 17, 2012, Gasoductos de Chihuahua entered into a storage services contract with PGPB for the supply of LPG. This contract is under the scheme of firm-base storage service with a reserved storage capacity of 2,403.88 tonnes daily, equivalent to 30,000 barrels per day (BPD). The contract is for a term of 15 years from the commercial operation date with a tariff regulated by the Energy Regulation Commission.

q. On , June 18, 2012, Transportadora del Norte SH and PGPB signed an Amendment Agreement to the storage contract for the supply of LPG through which Gasoductos de Chihuahua agreed to assign all the rights and obligation stipulated in the storage service contract and its appendices to Transportadora del Norte SH.

   In the event of a delay in the entry into Commercial Operations of a supply plant, the service contractor shall pay the user the amount of $361,643 for each day of delay. This amount shall be adjusted annually based on the National Consumer Price Index ("INPC"), published successively in the Federal Official Gazette, taking the restated amount of the immediately preceding year as a base.

   The amount of the contractual penalties may not exceed the amount of $108,000,000 during the term of the Contract, on the understanding that this amount shall the updated annually in accordance with the National Consumer Price Index ("INPC"), published successively in the Federal Official Gazette, taking the restated amount of the immediately preceding year as a base.

r. On February 21, 2012, Transportadora del Norte SH entered into a contract with PGPB, through which it receives operation and maintenance services for the liquefied gas storage service. This contract has a term of 15 years from the commercial operation date.

s. On December 21, 2012, Gasoductos del Sureste signed a contract with Techint, S.A. de C.V. (the “Contractor”) for the engineering, construction and procurement of the following segments of the ethane pipeline: Segmento I Nuevo Pemex - Cactus, Segment II Cactus- Ethylene Complex XXI and Segment III Ethylene Complex XXI- Ethane Ring Area, Coatzacoalcos.

   This contract stipulates that if the construction of this ethane pipeline is not concluded by, June 30, 2014, after the work commencement notification, the contractor is obliged to pay Gasoductos del Sureste a penalty for each day of delay in Segment I for the first 30 days US$37,250; from day 31 to 60, US$40,000; from day 61 to 90 US$45,000; from day 91 to 120, $50,000; from day 121 to150 US$55,000; from day 151 to 180, US$65,000; and from day 181 onwards, US$70,000. Delays in Segment II for the first 30 days US$41,250, from day 31 to 120, US$42,500; from day 121 to 150, US$52,500; from day 151 to 180, US$72,500, and from day 181 onwards, US$107,500. Delays in Segment II for the first 30 days US$31,250, from day 31 to 120, US$32,500; from day 121 to 150, US$42,500; from day 151 to 180, US$62,500, and from day 181 onwards, US$99,500.

t. On November 27, 2012, Gasoductos del Sureste signed an ethane transportation service contract with PGPB for a term of 21 years from the commercial operation date at a conventional tariff. This contract is under the scheme of firm-base transportation service with a reserved transportation capacity of: Segment I Cangrejera- Ethylene Complex XXI 33,000 BPD, Segment I Ethylene Complex XXI- Cangrejera 29,500 BPD, Segment II Nuevo Pemex- Km 3 BPD, Segment II Cactus- Km 3 38,000 BPD, Segmento II Km 3- Ethylene Complex XXI 95,500 BPD and Segment III Cd. Pemex- Nuevo Pemex 105,600 BPD.

   In the event of breach of the scheduled commercial operation date, GDS shall pay PGPB a penalty is USD for each day of delay in Segment I for the first 30 days $7,500; from day 31 to 60, $10,000; from day 61 to 90 $15,000; from day 91 to 120, $20,000; from day 150 $25,000; from day 151 to 180, $35,000; and from day 181 onwards, $40,000. Delays in Segments II and III for the first 30 days US$1,250, from day 31 to 120, US$2,500; from day 121 to 150, US$12,500; from day 151 to 180, US$32,500, and from day 181 onwards, US$67,500.

u. The total limit of the contractual penalties beginning the signing date of the contract through the commercial operation date of the final segment may not exceed the amount of US$30,000,000.

v. On October 15, 2013, Gasoductos del Noreste signed a contract with Bonatti, S.P.A, the ("Contractor") for the engineering, construction and procurement of the Los Ramones Phase I project.

   This contract stipulates that if the construction of this pipeline is not concluded by December 1, 2014, after the work commencement notification, the contractor is obliged to pay Gasoductos del Noreste a penalty of US$75,000 for each day of delay for the first 30 days, US $150,000 from day 31 to 90 and then US $250.000 from the 91st onwards.

w. On July 19, 2013, Gasoductos del Noreste signed a natural gas transportation contract with PEMEX-Gas Petroquímica Básica (PGPB) for a term of 25 years from the commercial operation date of the system at a conventional tariff. The system will have two phases; the commercial operation date of the pipeline will be December 1, 2014, and the commercial operation date of the system will be December 1, 2015, when two turbo-compressors will be added. This contract is under the scheme of firm-base transportation service with a reserved transportation capacity of 1 billion cubic feet daily in the first phase and 2.1 billion cubic feet daily in the second phase.

   In the event of breach of the scheduled commercial operation dates of the pipeline and the system, GDN shall pay PGPB a contractual penalty of US$60,822 for each day of delay.

   The total limit of the contractual penalties for delays in achieving the commercial operation dates of the pipeline and the system may not exceed the amount of US$$ 22,200,000.

17. Contingencies

As mentioned in Note 16, Transportadora del Norte SH, S. de R. L. de C. V. is currently in the process of negotiating the contractual penalties incurred for the delay in the commissioning of the LPG Storage Terminal in Zapotlanejo, Guadalajara.

18. Subsequent Fact

On December 5, 2013, Gasoductos de Chihuahua, S. de R. L. de C. V. signed a syndicated loan contract with four banks, with BBVA Bancomer, S.A. as the principal agent and Deutsche Bank Mexico Trust Division as trustee. The amount of the loan is US$475,395,000, which will be used to develop the Los Ramones Phase I project. The banks involved in the loan are BBVA Bancomer with a contribution percentage of 50 %, The Bank of Tokyo Mitsubishi with 20 % and Mitzuho Barde and Mitzuho Norddeutsche Landesbank with 15% each. The credit flows will be received in three draw-downs: US$192,000,000 on January 15, 2014, US$ 48,000,000 on February 14, 2014, and US$ 235,395,000 on March 10, 2014 .

The loan amortization is quarterly, the first beginning from March 18, 2014, and ending in 2026, the total term of the loan being 13 years.

The interest accrued under the loan contract is at a 90-day LIBOR rate plus an applicable margin of 2.00% until the fifth anniversary, a LIBOR rate plus 2.25% from the fifth to eighth anniversary, a LIBOR rate plus 2.5% from the eighth to the twelfth anniversary and a LIBOR rate plus 2.75% in the thirteenth year.

Also on January 22, 2014, a derivative financial instrument (swap) was contracted to hedge the interest rate risk on the total amount of the loan, which closed at a rate of 2.63%.

In said credit, Gasoductos de Chihuahua was named as the borrower, Gasoductos de Tamaulipas and TDF were jointly named as the guarantors and obligors through the assignment of collection

rights of a portfolio of integrated projects by GDC, TDF, and GDT as a source of payment of the credit.

As part of the obligations resulting from the credit, GDC, GDT and TDF must maintain the following financial ratios for the term of the credit:

1) Maintain a minimum stockholders' equity for the term of the credit, in amounts indicated: Amounts denominated in US 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 interest hedging ratio of at least 2.5 to 1- on a consolidated basis (EBITDA on interests), for the payment of interest.

19. New accounting pronouncements

During 2013 the Mexican Board for Research and Development of Financial Reporting Standards issued the following Financial Reporting Standards, which took effect from January 1, 2014, allowing their advanced application as follows:

FRS B-12 Compensation of financial assets and financial liabilities FRS C-14 Transfer and retirement of financial assets

Some of the main changes established by these standards are:

FRS B-12, *Compensation of financial assets and financial liabilities* **-** This FRS establishes the standards for the presentation and disclosure of the compensation of financial assets and liabilities in the statement of financial position, indicating that is only admissible when: a) there is a legal right and obligation to collect or pay a compensated amount, and (b) the amount resulting from compensating the asset with the financial liability reflects the Company's expected cash flows on settling two or more financial instruments. The standard also stipulates that a company must only compensate when the following two conditions are met: 1) There is a legally enforceable and valid right to compensate the financial asset and the financial liability in any circumstance; and at the same time, 2) there is the intention to liquidate the financial asset and liability on a compensated basis or realize the financial asset and liquidate the financial liability simultaneously.

FRS C-14, *Transfer and retirement of financial assets* - This FRS establishes the rules for the accounting recognition and retirements of financial assets other than cash and cash equivalents, such as financial instruments receivable or negotiable, as well as the presentation of said transfers and the related disclosures in the financial statements. For a transfer to also qualify as retirement, there must be a full transfer of the risks and benefits of the financial asset.

The transferor of the financial asset will cancel in its statement of financial position at the time that said asset no longer represent any future benefit or loss Conversely, the receiver will assume the risks inherent to said financial asset acquired and will have an extra return if the cash flows generated by said asset are higher than originally estimated, or a loss if the cash flows received were lower.

At the issue date of these consolidated financial statements, the Company is in the process of determining the effects of these new standards in its financial information.

20. Date authorized for the issuance of the financial statements

The consolidated financial statements were approved for issue on February 27, 2014, by José Luis Vitagliano Novoa, Chief Executive Officer, and Antonio Hernandez Benitez, Administration and Finance Director. As a consequence, they do not reflect the facts that occurred after that date, and are subject to the approval of the Board of Directors and the Stockholders' Meeting of Gasoductos de Chihuahua, S. de R.L. de C.V., which may decide to modify them in accordance with the provisions of the General Corporation and Partnership Law.

José Luis Vitagliano, Engineer	Antonio Hernandez Benitez, Engineer
Chief Executive Officer	Administration and Finance Director