Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Financial Statements as of June 30, 2018 and for the six and three-month periods ended June 30, 2018 and 2017 (Unaudited) and Independent Auditor's Review Report Dated July 24, 2018

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Financial Statements as of June 30, 2018 and for the six and three-month periods ended June 30, 2018 and 2017 (Unaudited)

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Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	**Notes**	**June 30, 2018 (Unaudited)**	**December 31, 2017**
Current assets:			
Cash and cash equivalents		$ 21,267	$ 37,208
Short-term investments	13	51,082	1,081
Finance lease receivables	5, 13	9,134	8,126
Trade and other receivables, net		117,833	94,793
Due from unconsolidated affiliates	3	31,099	24,600
Income taxes receivable		74,363	81,909
Natural gas inventories		9,420	7,196
Derivative financial instruments	13	6,731	6,130
Value added tax receivable		70,750	39,633
Carbon allowances	10	37,959	—
Other assets		14,230	10,327
Restricted cash	13	57,310	55,820
Assets held for sale	7	—	148,190
Total current assets		501,178	515,013
Non-current assets:			
Due from unconsolidated affiliates	3, 13	596,204	493,887
Derivative financial instruments	13	1,653	1,935
Finance lease receivables	5, 13	937,828	942,184
Deferred income tax assets		82,942	97,334
Investments in joint ventures	4	575,669	523,102
Other assets		68,652	32,658
Property, plant and equipment, net	8, 16	3,948,102	3,729,456
Carbon allowances	10	10,744	—
Intangible assets	9	190,234	190,199
Goodwill		1,638,091	1,638,091
Total non-current assets		8,050,119	7,648,846
Total assets	16	$ 8,551,297	$ 8,163,859

Liabilities and Stockholders' Equity	**Notes**	**June 30, 2018 (Unaudited)**	**December 31, 2017**
Current liabilities:			
Short-term debt	11, 13	$ 332,745	$ 262,760
Trade and other payables		140,444	72,638
Due to unconsolidated affiliates	3, 13	604,286	544,217
Income tax liabilities		22,249	3,384
Derivative financial instruments	13	4,163	41,726
Other financial liabilities		28,030	10,372
Provisions		476	394
Other taxes payable		36,585	36,273
Carbon allowances	10	37,959	—
Other liabilities		16,706	19,631
Liabilities related to assets held for sale	7	—	62,522
Total current liabilities		1,223,643	1,053,917
Non-current liabilities:			
Long-term debt	12, 13	1,701,424	1,732,040
Due to unconsolidated affiliates	3, 13	74,341	73,510
Deferred income tax liabilities		544,483	551,614
Carbon allowances	10	8,940	—
Provisions		74,480	67,210
Derivative financial instruments	13	137,669	162,444
Employee benefits		7,659	6,537
Other non-current liabilities		4,646	—
Total non-current liabilities		2,553,642	2,593,355
Total liabilities	16	3,777,285	3,647,272
Stockholders' equity:			
Common stock	15	963,272	963,272
Additional paid-in capital		2,351,801	2,351,801
Accumulated other comprehensive loss		(86,952)	(114,556)
Retained earnings		1,545,887	1,316,070
Total equity attributable to owners of the company		4,774,008	4,516,587
Non-controlling interest		4	—
Total equity of the company		4,774,012	4,516,587
Commitments and contingencies	19, 20		
Events after the reporting period	22		
Total liabilities and equity		$ 8,551,297	$ 8,163,859

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Statements of Profit

(In thousands of U. S. Dollars, except per share amounts)

	Notes	Six-month period ended June 30, (Unaudited)		Three-month period ended June 30, (Unaudited)	
		2018	**2017**	**2018**	**2017**
		(Notes 1, 7)	(Notes 1, 7)	(Notes 1, 7)	(Notes 1, 7)
Revenues	16, 17	$ 614,620	$ 567,887	$ 307,374	$ 286,838
Cost of revenues		(142,366)	(138,151)	(67,994)	(65,847)
Operating, administrative and other expenses		(97,774)	(99,303)	(49,115)	(55,462)
Depreciation and amortization		(67,388)	(55,903)	(33,816)	(28,730)
Impairment of Termoelectrica de Mexicali, S. de R. L. de C. V. ("TDM")	7	—	(63,804)	—	(63,804)
Interest income		13,395	4,580	7,162	3,018
Finance costs		(59,862)	(27,984)	(29,097)	(14,334)
Other (losses) gains, net		(5,175)	6,012	(56,944)	2,286
Profit before income tax and share of profits of joint ventures		255,450	193,334	77,570	63,965
Income tax expense	14	(58,043)	(19,452)	(19,740)	(22,406)
Share of profits of joint ventures, net of income tax	4, 16	32,410	16,870	44,482	4,234
Profit for the period	16, 18	$ 229,817	$ 190,752	$ 102,312	$ 45,793
Earnings per share:					
Basic and diluted earnings per share	18	$ 0.15	$ 0.12	$ 0.07	$ 0.03

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

		Six-month period ended June 30, (Unaudited)		Three-month period ended June 30, (Unaudited)	
	Notes	**2018**	**2017**	**2018**	**2017**
Profit for the period	16, 18	$ 229,817	$ 190,752	$ 102,312	$ 45,793
Items that may be subsequently reclassified to profit or (loss):					
Gain (loss) on valuation of derivative financial instruments held for hedging purposes		23,270	(10,575)	8,912	(11,581)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes		(6,982)	3,172	(2,673)	3,474
Gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		18,318	(12,447)	9,532	(4,736)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		(5,495)	3,734	(2,859)	1,421
(Loss) gain exchange differences on translation of foreign operations		(1,507)	25,453	(14,434)	7,516
Total items that may be subsequently reclassified to profit (loss)		27,604	9,337	(1,522)	(3,906)
Other comprehensive income (loss) for the period		27,604	9,337	(1,522)	(3,906)
Total comprehensive income for the period		$ 257,421	$ 200,089	$ 100,790	$ 41,887

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Notes	Common Shares	Additional paid-in capital	Other comprehensive loss	Retained earnings	Non-controlling interest	Total
Balance as of January 1st, 2017	15	$ 963,272	$ 2,351,801	$ (126,658)	$ 1,161,896	$ —	$ 4,350,311
Profit for the period	16, 18	—	—	—	190,752	—	190,752
Loss on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	(7,403)	—	—	(7,403)
Loss on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	(8,713)	—	—	(8,713)
Exchange differences on translation of foreign operations		—	—	25,453	—	—	25,453
Total comprehensive income for the period		—	—	9,337	190,752	—	200,089
Balance as of June 30, 2017 (Unaudited)	15	$ 963,272	$ 2,351,801	$ (117,321)	$ 1,352,648	$ —	$ 4,550,400
Balance as of January 1st, 2018	15	$ 963,272	$ 2,351,801	$ (114,556)	$ 1,316,070	$ —	$ 4,516,587
Profit for the period	16, 18	—	—	—	229,817	—	229,817
Non- controlling interest		—	—	—	—	4	4
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	16,288	—	—	16,288
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	12,823	—	—	12,823
Exchange differences on translation of foreign operations		—	—	(1,507)	—	—	(1,507)
Total comprehensive income for the period		—	—	27,604	229,817	4	257,425
Balance as of June 30, 2018 (Unaudited)	15	$ 963,272	$ 2,351,801	$ (86,952)	$ 1,545,887	$ 4	$ 4,774,012

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Condensed Interim Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

		Six-month period ended June 30, (Unaudited)		Three-month period ended June 30, (Unaudited)	
	Notes	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities:					
Profit for the period	16, 18	$ 229,817	$ 190,752	$ 102,312	$ 45,793
Adjustments for:					
Income tax expense	14	58,043	19,452	19,740	22,405
Share of profit of joint ventures, net of income tax	4, 16	(32,410)	(16,870)	(44,482)	(4,234)
Finance costs		59,862	27,984	29,096	14,334
Interest income		(13,395)	(4,580)	(7,162)	(3,014)
Loss (gain) on disposal of property, plant and equipment		716	851	410	(165)
Impairment loss recognized on trade receivables		34	39	12	24
Impairment of TDM	7	—	63,804	—	63,804
Remeasurement of intangible asset		—	(2,289)	—	(2,289)
Depreciation and amortization		67,388	55,903	33,816	28,730
Net foreign exchange loss (gain)		11,249	(10,238)	57,331	(5,930)
(Gain) loss on valuation of derivative financial instruments, net		(3,210)	3,856	3,494	3,722
		378,094	328,664	194,567	163,180
Movements in working capital:					
(Increase) decrease in trade and other receivables, net		(10,184)	(27,425)	9,832	(13,236)
Increase in natural gas inventories, net		(2,224)	(4,797)	(2,342)	(2,039)
(Increase) decrease in other assets, net		(28,748)	(5,898)	(13,775)	11,274
(Decrease) increase in trade and other payables, net		(20,326)	(38,518)	5,329	(27,614)
(Decrease) increase in provisions, net		(6,951)	(4,426)	721	(9,118)
(Decrease) increase in other liabilities, net		(26,362)	1,995	(26,030)	2,876
Cash generated from operations		283,299	249,595	168,302	125,323
Income taxes paid		(38,035)	(71,967)	(16,066)	(41,892)
Net cash provided by operating activities		245,264	177,628	152,236	83,431

(Continued)

	Notes	Six-month period ended June 30, (Unaudited)		Three-month period ended June 30, (Unaudited)	
		2018	2017	2018	2017
Cash flows from investing activities:					
Acquisition of subsidiaries, net of cash acquired	6	(2,989)	—	—	—
Investment in joint ventures		(24,773)	(72,067)	—	(26,272)
Veracruz marine terminal counter-payment fee	1	(25,984)	—	—	—
Interest received		262	587	(30)	—
Acquisitions of property, plant and equipment		(147,114)	(94,475)	(88,179)	(25,056)
Loans granted to unconsolidated affiliates	3	(84,125)	(170,023)	(2,160)	(170,023)
Receipts of loans granted to unconsolidated affiliates	3	4,075	2,417	2,005	—
Restricted cash		(1,490)	(16,792)	(8,115)	(10,005)
Short-term investments		(50,001)	(2,901)	(24,000)	10,100
Net cash used in investing activities		(332,139)	(353,254)	(120,479)	(221,256)
Cash flows from financing activities:					
Interest paid		(39,905)	(35,658)	(17,755)	(9,899)
Loans received from unconsolidated affiliates	3	70,000	166,699	—	56,274
Loans payments to unconsolidated affiliates	3	—	(9,487)	—	(1,084)
Proceeds from bank financing	11, 12	240,000	170,000	15,000	100,000
Loans payments on bank lines of credit	11, 12	(135,539)	(120,368)	(71,763)	(40,487)
Payment of Certificados Bursatiles ("CEBURES") or debt securities	12	(102,069)	—	—	—
Net cash provided by financing activities		32,487	171,186	(74,518)	104,804
Decrease in cash and cash equivalents		(54,388)	(4,440)	(42,761)	(33,021)
Cash and cash equivalents at the beginning of the period		37,208	25,490	44,900	60,076
Effects of exchange rate changes on cash and cash equivalents		38,447	6,991	19,128	986
Cash and cash equivalents at the end of the period		$ 21,267	$ 28,041	$ 21,267	$ 28,041

See accompanying notes to the Condensed Interim Consolidated Financial Statements.

Notes to the Condensed Interim Consolidated Financial Statements

As of June 30, 2018 and for the six and three-month periods ended June 30, 2018 and 2017 (Unaudited)
(In thousands of U.S. Dollars, except where otherwise stated)

1. Business and relevant events

a. *Business*

Infraestructura Energetica Nova, S. A. B. de C. V. ("IEnova") and Subsidiaries (collectively, "IEnova or the Company") are located and incorporated in Mexico. Their parent and ultimate holding company is Sempra Energy (the "Parent"), located and incorporated in the United States of America ("U. S."). The address of their registered offices and principal places of business are disclosed in Note 24.

The Company operates in the energy sector. The Company is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova. (Please refer to Note 16).

The Gas segment develops, owns and operates, or holds interests in, natural gas, liquefied petroleum gas ("LPG"), ethane pipelines, storage facilities for liquefied natural gas ("LNG") and LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo Leon and Jalisco, Mexico. It also owns and operates a LNG terminal in Baja California, Mexico for importing, storing and regasifying LNG.

The Power segment develops three solar projects located in Baja California, Aguascalientes and Sonora, Mexico, owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine in Baja California, Mexico, owns a wind farm located in Nuevo Leon, Mexico and holds interests in a renewable energy project in a joint venture in Baja California, Mexico, both renewable energy projects use the wind resources to serve customers in Mexico and in the U. S., respectively.

The Company develops marine and in-land terminals for the reception, storage and delivery of refined products, located in the state of Veracruz, Mexico City, Puebla, Baja California and Sinaloa, Mexico.

The Company obtained the corresponding authorization from the Comision Reguladora de Energia ("CRE") in order to perform the regulated activities.

Seasonality of operations. Customer demand in both Gas and Power segments experience seasonal fluctuations. For the Gas segment, the demand for natural gas service is higher in colder months. In the case of the Power segment, the demand for power distribution service is higher during months with hot weather.

b. *Relevant events*

1.1. Execution of Standby Letter of Credit Facility ("LOCF") and Reimbursement Agreement

On January 22, 2018, in order to make more efficient and standardize the process for the issuance of letters of credit requested by governmental entities or third parties with whom it contracts, IEnova together with a bank syndicate formed by Banco Nacional de Mexico, S. A., Sumitomo Mitsui Banking Corporation ("SMBC"), BBVA Bancomer, S. A. de C. V. ("Bancomer"), Scotiabank Inverlat, S. A. ("Scotiabank"), Mizuho Bank, LTD ("Mizuho"), BNP Paribas S. A. and Banco Santander (Mexico),

S. A. ("Santander"), entered into a letter of credit facility and reimbursement agreement, up to an amount equivalent to $1.0 billion U. S. Dollars which will be in effect for five years.

i. The agreement, among other things, will allow IEnova to expedite the administrative processes for the issuance or renewal of standby letters of credit and to have a standard process for the issuance of all its standby letters of credit.

ii. The LOCF and the standby letters of credit issued under it do not constitute IEnova's debt.

1.2. Veracruz marine terminal and in-land terminal projects

On January 8, 2018, ESJ Renovable III, S. de R. L. de C. V. ("ESJRIII") paid the remaining 50 percent of a counter-payment fee equivalent to the amount of $500.0 million Mexican Pesos for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz.

1.3. CEBURES

On February 8, 2018, the Company made the repayment of the public debt issuance, CEBURES, of the second placement for an amount of $1.3 billion historical Mexican Pesos (Please refer to Note 12.a.).

For this debt maturing in 2018, the Company swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments that were realized on this date, the Company received $1.3 billion Mexican Pesos and paid $102.2 million U. S. Dollars. This payment ended the hedged contracted and CEBURES liability (Please refer to Note 12.a.).

1.4. Long-term electric supply contract

On February 28, 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of El Puerto de Liverpool, S. A. B. de C. V. ("Liverpool"). The electricity will be generated by a new solar power plant that will be located in the municipality of Benjamin Hill in the State of Sonora, Mexico. The plant will have the capacity to supply Liverpool and other large energy consumers. The Company will be responsible of the development, construction and operation of the project that will have a capacity of 125 Megawatts ("MW") with an investment of approximately $130.0 million. The beginning of commercial operations is expected to occur in the second half of 2019.

1.5. Marine terminal in Baja California, Mexico.

On April 12, 2018, the Company announced a project to develop, construct, and operate a marine terminal that will be located 23 Kilometers ("Km") North of Ensenada, Baja California, Mexico. The terminal, with initial capacity of one million barrels of storage capacity will receive, store, and deliver hydrocarbons, primarily gasoline and diesel. The investment will be of approximately by $130.0 million.

The Company signed a long-term contract with Chevron Combustibles de Mexico S. de R. L. de C. V., a Chevron Corporation ("Chevron") Subsidiary, for approximately 50 percent of the terminal's storage capacity. Additionally, another subsidiary of Chevron will have the right to acquire 20 percent of the terminal after commercial operations begin. In addition, the Company executed a second long-term contract for the storage and delivery of hydrocarbons with another global oil company for the remaining 50 percent of the terminal's storage capacity.

1.6. Formation of a fund to repurchase its own shares

On June 14, 2018, at Company's Ordinary General Shareholders' Meeting, the shareholders decided to approve the formation of a fund to repurchase the Company's own shares for a maximum amount of $250.0 million for 2018, such amount shall not exceed the Company's total net profits, including retained earnings, as stated in the Company's 2017 Financial Statements, which were approved in

the Ordinary General Shareholders' Meeting on April 27, 2018. As of June 30, 2018, the Company has not repurchased any shares.

1.7. TDM changes to plan of sale

On June 1, 2018, management formalized its decision to suspend the sell of TDM, and the assets and liabilities that were previously classified as held for sale were reclassified as held and used, and depreciation resumed. (Please refer to Note 7)

2. Significant accounting policies

a. *Statement of compliance*

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

Certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted pursuant to the interim period reporting provisions.

Therefore, the Condensed Interim Consolidated Financial information should be read in conjunction with the annual Consolidated Financial Statements for the year ended December 31, 2017, which were prepared in accordance with IFRS as issued by the IASB. Results of operations for interim periods are not necessarily indicative of results for the entire year.

b. *Basis of preparation*

The same accounting policies, presentation and methods of computation followed in these Condensed Interim Consolidated Financial Statements were applied in the preparation of the Company's annual Consolidated Financial Statements for the year ended 2017.

c. *Non-current assets classified as held for sale and discontinued operations*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered mainly through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable.

A discontinued operation is a component of a company that either has been disposed of or is classified as held for sale and represents (or is part of a single coordinated plan to dispose of) a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.
A discontinued operation is presented as a single amount in the Condensed Interim Consolidated Statements of Profit comprising the total of post-tax profit or loss of discontinued operations and gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets constituting the discontinued operation.

If the entity does not meet with the criteria established in accordance with IFRS 5 *Non-Current Assets Held for Sale* or decides to make changes to a plan of sale and the non-current asset ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale), it is measured at the lower of:

i. Its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and

ii. Its recoverable amount at the date of the subsequent decision not to sell or distribute.

The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the criteria of the IFRS 5 are no longer met and will be changed, as a result the Financial Statements of the periods from the classification of as held for sale. The entity shall present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any.

If an entity ceases to classify a component as held for sale, the results of operations of the component previously presented in discontinued operations should be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods should be described as having been re-presented.

The amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the comparative Consolidated Statement of Financial Position should not be reclassified or re-presented.

d. ***Intangible assets***

Intangible assets acquired in a business combination and/or asset acquisition are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination and/or assets acquisition are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

e. ***Business combination and assets acquisition***

An entity shall determine whether a transaction or other event is a business combination by applying the definition of IFRS 3 *Business Combinations*, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the Company shall account for the transaction or other event as an asset acquisition.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for:

i. Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits,* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Company's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Other contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquire is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit. Amounts arising from interests in the acquire prior to the acquisition date, that have previously been recognized in other comprehensive income ("OCI") are reclassified to profit where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

f. ***Revenues***

The Company records revenue from contracts with clients at the time that the services are rendered or the goods are delivered to and accepted by that client, based in the terms and conditions established in each contract. Consequently, assignment of that revenue is based on independent sales prices established in the contract and on the basis of amounts incurred. Therefore, assignment of the consideration and, consequently, the schedule for revenue recognition was not affected by adoption of IFRS 15 *Revenue from Contract with Customer*.

The Company has evaluated the recognition and measurement of revenue according to the five-step model in the IFRS 15 and did not identify any significant financial impact from its adoption. The Company chose to adopt the new standard as of January 1, 2018 by applying the modified retrospective method of adoption.

Revenue from contracts with clients are classified based on the following revenue streams:

- i. Power Generation
- ii. Transportation of gas
- iii. Sale of natural gas
- iv. Storage and regassification capacity
- v. Administrative services
- vi. Natural gas distribution

g. ***Critical judgments in applying accounting policies***

In the application of the Company's accounting policies, the management of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Condensed Interim Consolidated Financial Statements.

The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

i. *Impairment of tangible and intangible assets (other than goodwill)*

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, a gain or loss could arise once an actual sale is completed.

ii. *Finance lease*

As described in Note 5, management has determined that certain arrangements should be accounted for as leases whereby the present value of the minimum lease payments at lease inception date are discounted to equal the fair value of the related assets as of such date.

3. Transactions and balances with unconsolidated affiliates

Transactions and balances between IEnova and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note.

a. *Transactions and balances with unconsolidated affiliates*

During the six and three-month periods ended June 30, 2018 and 2017, respectively, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Sempra Gas & Power Marketing, LLC ("SG&PM")	$ 77,690	$ 40,122	$ 32,109	$ 14,323
Sempra LNG International Holdings, LLC ("SLNGIH")	50,733	51,162	26,683	26,151
Tag Pipelines Norte S. de R. L. de C. V. ("TAG Pipelines Norte")	11,351	847	6,019	847
Sempra International, LLC ("Sempra International")	875	982	521	486
Southern California Gas Company ("SoCalGas")	617	82	188	68
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	567	387	299	235
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	72	147	—	48
Ductos y Energeticos del Norte, S de R. L. de C. V. ("DEN")	—	3,784	—	1,737
Sempra Midstream, Inc. ("Sempra Midstream")	—	2	—	2

	Cost of revenues and operating, administrative and other expenses			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Sempra LNG International, LLC ("SLNGI")	$ 87,129	$ 89,161	$ 42,097	$ 42,777
SG&PM	50,217	22,854	25,709	11,511
Sempra International	4,303	2,926	1,866	1,839
Sempra Infrastructure, LLC (formerly Sempra U. S. Gas & Power, LLC)	2,523	3,992	1,256	1,859
SoCalGas	941	656	524	311
Sempra Generation ("SGEN")	—	2,340	—	1,296
Sempra Midstream	—	492	—	320

Included in the operational transactions are administrative services from affiliates by $4.3 million and $2.9 million for the six-month periods ended June 30, 2018 and 2017, respectively and $1.8 million and $1.8 million for the three-month periods ended June 30, 2018 and 2017, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

	Interest income			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG")	$ 29,233	$ 1,416	$ 14,826	$ 1,416
Energía Sierra Juarez, S. de R. L. de C. V. ("ESJ")	235	467	116	232
SGEN	32	—	17	—
DEN	—	2,089	—	1,122

	Finance cost			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Inversiones Sempra Limitada ("ISL")	$ 4,499	$ 918	$ 2,562	$ 745
Sempra Energy Holding, XI. B. V. ("SEH")	1,745	—	980	—
Peruvian Opportunity Company, S. A. C. ("POC")	1,362	242	763	154
TAG Pipelines Norte	831	—	421	—
Sempra Oil Trading Suisse ("SOT Suisse")	735	652	399	286
Inversiones Sempra Latin America Limitada ("ISLA")	—	1,174	—	474
Sempra Global, LLC ("SEG")	—	254	—	—
DEN	—	114	—	70

The following balances were outstanding at the end of the reporting period / year:

	Amounts due from unconsolidated affiliates	
	As of	
	06/30/18	12/31/17
SG&PM	$ 19,062	$ 10,723
SLNGIH	7,034	9,162
TAG Pipelines Norte	4,663	4,289
SESJ	340	371
SLNGEL	—	34
SoCalGas	—	21
	$ 31,099	$ 24,600

	Amounts due to unconsolidated affiliates	
	As of	
	06/30/18	12/31/17
ISL (i)	$ 345,000	$ 275,188
SEH (ii)	132,800	132,800
POC (iii)	102,000	102,020
SLNGI	16,374	16,360
SG&PM	7,548	17,525
Sempra International	397	226
SoCalGas	167	98
	$ 604,286	$ 544,217

New loans or amendments as of 2018.

i. On January 16, 2018, IEnova entered into a $70.0 million U.S. Dollar-denominated affiliate credit facility with ISL, to finance working capital and for general corporate purposes. The credit is a twelve-month term, with an option to extend. Interest of the outstanding balance is payable on a quarterly basis at three-month London Interbank Offered Rate (“LIBOR”) plus 63 basis points ("BPS") per annum. Interest shall be paid on the last day of each calendar quarter.

   On March 21, 2018, the Company signed addendum modifying the contracts’ terms over the $85.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and are due and payable in full on March 21, 2019, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

ii. On August 23, 2017, IEnova entered into a $132.8 million U.S. Dollar-denominated affiliate credit facility with SEH, to finance working capital and general corporate purposes. The credit facility is for a six-month term. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 61 BPS per annum. On February 6, 2018, IEnova signed an addendum modifying the contract term to August 22, 2018.

iii. On June 26, 2017, IEnova entered into a $21.0 million U.S. Dollar denominated affiliate credit facility with POC, to finance working capital and general corporate purposes. The credit is for twelve-month term, with an option to extend up to four years. Interest of the outstanding balance is payable on a quarterly basis at LIBOR plus 63 BPS per annum. On June 26, 2018, IEnova signed an addendum modifying the contract term to December 15, 2018.

b. ***Loans to unconsolidated affiliates***

	As of	
	06/30/18	12/31/17
IMG (i)	$ 588,656	$ 487,187
ESJ	5,699	6,700
SEG	1,849	—
	$ 596,204	$ 493,887

i. On April 21, 2017, IEnova entered into a loan agreement with IMG, providing a credit line in an amount of up to $9,041.9 million Mexican Pesos, the maturity date is March 15, 2022. The applicable interest rate is the Mexican Interbank Interest Rate (“TIIE”) at 91 days plus 220 BPS capitalized quarterly.

On December 6, 2017, the Company signed an addendum modifying the amount of the loan up to $14,167.9 million Mexican Pesos.

As of June 30, 2018, the outstanding balance amounts $11,692.7 million Mexican Pesos, including $832.0 million Mexican Pesos of capitalized interest.

Transactions with unconsolidated affiliates as of the date of this report are consistent in nature with those in previous years and periods. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given nor received regarding these loans. No expenses have been recognized in the current or prior years and periods for bad or doubtful debts regarding the amounts owed by unconsolidated affiliates.

c. ***Loans from unconsolidated affiliates***

	As of	
	06/30/18	**12/31/17**
SOT Suisse	$ 38,460	$ 38,460
TAG Pipelines Norte	35,881	35,050
	$ 74,341	$ 73,510

d. ***Compensation of key management personnel***

Total compensation expense of key management personnel was $9.9 million and $7.3 million for the six-month periods ended June 30, 2018 and 2017, respectively, and $1.0 million and $1.0 million for the three-month periods ended June 30, 2018 and 2017, respectively.

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

4. Investment in joint ventures

4.1. ESJ

ESJ, the joint venture formed between IEnova and InterGen, N. V. ("InterGen"), started operations in June 2015.

As of June 30, 2018, the Company's remaining 50 percent interest in ESJ is accounted for under the equity method. ESJ's Condensed Interim Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As of	
	06/30/18	**12/31/17**
Cash and cash equivalents	$ 2,826	$ 2,785
Other assets	24,378	18,479
Total current assets	27,204	21,264
Deferred income tax assets	2,087	4,778
Other assets	2,789	2,795
Property, plant and equipment, net	246,990	252,856
Total non-current assets	251,866	260,429
Total assets	$ 279,070	$ 281,693

	As of	
	06/30/18	12/31/17
Current liabilities	$ 17,059	$ 17,509
Non-current liabilities	215,143	231,048
Total liabilities	$ 232,202	$ 248,557
Total members' equity	$ 46,868	$ 33,136
Share of members' equity	23,434	16,568
Goodwill	12,121	12,121
Carrying amount of investment in ESJ	$ 35,555	$ 28,689

ESJ´s Condensed Interim Consolidated Statements of Profit are as follows:

	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Revenues	$ 27,374	$ 27,410	$ 15,826	$ 13,390
Operating, administrative and other expenses	(10,449)	(10,427)	(5,220)	(5,510)
Finance costs	(7,750)	(8,092)	(3,861)	(3,902)
Other (losses) gains, net	(67)	170	(128)	61
Income tax expense	(1,653)	(2,475)	(655)	(963)
Profit for the period	$ 7,455	$ 6,586	$ 5,962	$ 3,076
Share of profit of ESJ	$ 3,728	$ 3,293	$ 2,981	$ 1,538

a. ***Project financing for the ESJ project***. On June 12, 2014, ESJ entered into a $239.8 million project finance loan for the construction of the wind project with five banks: Mizuho as coordinating lead arranger, the North American Development Bank ("NADB") as technical and modeling bank, Nacional Financiera, S. N. C. Institucion de Banca de Desarrollo ("NAFINSA"), Norddeutsche Landesbank Girozentrale ("NORD/LB") and SMBC as lenders.

On June 30, 2015, ESJ converted the construction loans into 18-year term loans. The credit facilities mature on June 30, 2033, with payments due on a semi-annual basis (each June 30 and December 30 until the final maturity date), starting on December 30, 2015. The credit facilities bear interest at LIBOR plus the applicable margin.

Years	LIBOR applicable Margin
June 2015 - June 2019	2.375%
June 2019 - June 2023	2.625%
June 2023 - June 2027	2.875%
June 2027 - June 2031	3.125%
June 2031 - June 2033	3.375%

As per the financing agreement, the ability to make withdrawals ended on the term conversion dated June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of $239.8 million. The debt outstanding as of June 30, 2018, is as follows:

		Debt balance
Mizuho	$	46,940
SMBC		46,940
NORD/LB		46,940
NAFINSA		34,139
NADB		34,139
	$	209,098

b. ***Interest rate swaps.*** To partially mitigate its exposure to interest rate changes associated with the loan, ESJ entered into floating-to-fixed interest rate swaps for 90.0 percent of the ESJ project financing loan amount. There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014, and an effective date of June 30, 2015, the date of conversion to a term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.

c. ***Other disclosures.*** The member's agreement provides certain restrictions and benefits to the sale of the membership interest in ESJ. The agreement establishes that capital calls that are to be contributed on a pro rata basis by the members.

4.2. IMG

The joint venture formed between IEnova and Transcanada Corporation ("Transcanada"), for the construction of the South Texas - Tuxpan marine pipeline, where by TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest of the project.

As of June 30, 2018 and 2017, the Company's 40 percent interest in IMG is accounted for under the equity method. IMG's Condensed Interim Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As of			
		06/30/18		12/31/17
Cash and cash equivalents	$	166,686	$	58,284
Value added tax receivable		56,470		195,350
Other assets		648		434
Total current assets		223,804		254,068
Total non-current assets		2,094,191		1,653,554
Total assets	$	2,317,995	$	1,907,622
Current liabilities	$	287,466	$	176,771
Long term debt		1,476,777		1,222,973
Deferred income tax liabilities		35,492		34,209
Total non-current liabilities		1,512,269		1,257,182
Total liabilities	$	1,799,735	$	1,433,953
Total members' equity	$	518,260	$	473,669

	As of	
	06/30/18	12/31/17
Share of members' equity	207,305	189,468
Guarantees	5,018	5,018
Share of member's equity and carrying amount of investment in IMG	$ 212,323	$ 194,486

IMG´s Condensed Interim Consolidated Statements of Profit are as follows:

	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Interest income	$ 6,423	$ —	$ 6,284	$ —
Other gains (losses), net *	20,943	(4,147)	106,602	(7,128)
Income tax (expense) benefit	(1,109)	5,355	(25,189)	1,303
Profit (loss) for the period	$ 26,257	$ 1,208	$ 87,697	$ (5,825)
Share of profit (loss) of IMG	$ 10,503	$ 483	$ 35,079	$ (2,330)

* Includes a foreign exchange impact on the Mexican peso-denominated inter-affiliate loan granted by the Company to IMG of $8.4 million gain and $5.9 million loss for the six-month periods ended June 30, 2018 and 2017, respectively, and $47.7 million gain and $5.9 million loss for the three-month periods ended June 30, 2018 and 2017, respectively, for the proportionate share of the project financing. In the Condensed Interim Consolidated Statement of Profit, in the "Other (losses) gains, net", net line item, a corresponding foreign exchange (loss) gain which fully offsets the aforementioned effect.

a. ***Project financing for the IMG project.*** As of June 30, 2018 and 2017, the project resources for the design and construction of the marine pipeline have been funded with capital contributions and loans of its members.

On April 21, 2017, IMG entered into two revolving credit agreements with IEnova and TransCanada, parent entities, by $9,041.9 million Mexican Pesos and $13,513.1 million Mexican Pesos, respectively.

On December 6, 2017, IEnova and TransCanada renegotiated the credit line of such credit facility agreements for an amount up to $14,167.9 million Mexican Pesos and $21,252.1 million Mexican Pesos, respectively. The loans accrue an annual interest rate of TIIE plus 220 BPS.

Loan balance as of June 30, 2018, with IEnova is $11,639.0 million Mexican Pesos.

On March 23, 2018, IMG entered into a $300.0 million U. S. Dollar-denominated revolving credit facility with Scotiabank Inverlat, S. A., which can be disbursed in U. S. Dollar or Mexican Pesos, to fund Value Added Tax payments and other capital expenditures. The credit facility is for a one year term with option to extend for one additional year. Interest of the outstanding balance is payable on a bullet basis at LIBOR plus 90 BPS for U. S. Dollar or TIIE plus 50 BPS for Mexican Pesos per annum.

b. ***Guarantees.*** IEnova and TransCanada have each provided guarantees to third parties associated with the construction of IMG's Sur de Texas-Tuxpan natural gas marine pipeline. IEnova's share of potential exposure of the guarantees was estimated to be $210.0 million and will terminate upon completion of all guaranteed obligations. The guarantees have terms ranging through 2020.

As of September 30, 2017, IEnova recognized an increase to the equity method investment for the amount of $5.0 million, fair value of the guarantees granted.

c. ***Capital contributions.*** On February 28, 2018, the Company made a capital contribution of $24.8 million to IMG.

d. ***Other disclosures.*** Offshore mainline construction was completed in May 2018, with shallow water pipe construction, border tie-in, three offshore tie-ins and pre-commissioning activities remaining. Landfall construction of tunnels at Tamiahua, Veracruz and Altamira, Tamaulipas, Mexico are estimate for completion in August. Onshore pipeline construction is with a substantial completion expected in third quarter of 2018.

In December 2018, in-service forecast is dependent on the hurricane season to facilitate offshore tie-in activities and advancing commissioning activities.

4.3. DEN

Until October 31, 2017, the Company owned a 50 percent interest in DEN, a joint venture with Pemex Transformacion Industrial ("Pemex TRI").

DEN´s Condensed Interim Consolidated Statement of Profit is as follows:

	Six-month period ended 06/30/17	Three-month period ended 06/30/17
Revenues	$ 11,089	$ 5,515
Operating, administrative and other expenses	(4,137)	(1,979)
Finance costs	(4,454)	(2,126)
Other gain, net	74	—
Income tax expense	(7,391)	(2,438)
Share of profit of joint ventures, net of income tax	31,007	11,080
Profit for the period	$ 26,188	$ 10,052
Share of profit of DEN	$ 13,094	$ 5,026

4.4. Tag Norte Holding S. de R. L. de C. V. ("TAG")

TAG together with TAG Pipelines Norte, a joint venture between IEnova and a consortium comprised of BlackRock and First Reserve, and Pemex TRI, owns Los Ramones Norte pipeline, which began operations in February 2016.

In November 2017, the Company increased its indirect participation in TAG from 25 percent to 50 percent.

As of June 30, 2018, the interest in TAG is accounted for under the equity method. TAG's Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As of	
	06/30/18	12/31/17
Cash and cash equivalents	$ 129,361	$ 81,823
Other assets	32,681	22,293
Total current assets	162,042	104,116

	As of	
	06/30/18	12/31/17
Due from unconsolidated affiliates	71,774	70,698
Finance lease receivables	1,418,111	1,431,703
Other assets	21,964	16,466
Property, plant and equipment, net	15,365	15,471
Total non-current assets	1,527,214	1,534,338
Total assets	$ 1,689,256	$ 1,638,454
Current liabilities	$ 105,856	$ 58,023
Non-current liabilities	1,125,858	1,178,616
Total liabilities	$ 1,231,714	$ 1,236,639
Total members' equity	$ 457,542	$ 401,815
Share of members' equity and carrying amount of investment in TAG	$ 228,771	$ 200,907
Equity method goodwill	99,020	99,020
Total amount of the investment in TAG	$ 327,791	$ 299,927

TAG´s Condensed Interim Consolidated Statement of Profit is as follows

	Six-month period ended 06/30/18	Three-month period ended 06/30/18
Revenues	$ 104,183	$ 51,331
Operating, administrative and other expenses	(15,895)	(8,121)
Finance costs	(29,901)	(12,890)
Other losses, net	(3,406)	(3,356)
Income tax expense	(18,621)	(14,120)
Profit for the period	$ 36,360	$ 12,844
Share of profit of TAG	$ 18,179	$ 6,422

a. ***TAG Project financing***. On December 19, 2014, TAG, (subsidiary of DEN), entered into a credit contract with Santander as lender, administrative agent and collateral agent, with the purpose of financing the engineering, procurement, construction and commissioning of the gas pipeline.

During 2016 and 2015, there were amendments to the credit contract in order to include additional banks as lenders. The total amount of the credit is $1,274.5 million, divided in tranches:

i. Long tranche, up to $701.0 million,
ii. Short tranche up to $513.3 million and
iii. A letter of credit tranche for debt service reserve up to $60.2 million.

The credit facilities mature in December 2026 and December 2034 for the short and long tranche loan respectively, with payments due on a semi-annual basis. The credit facilities bears interest at LIBOR plus the spread, as follows:

Years	Applicable Margin BPS
1st disbursement - (System Commercial Operation Date)	250
0 – 4	265
5 – 9	300
10 – 14	325
15 – Until credit maturity	350

As of June 30, 2018, the total outstanding loan is $1,126.0 million, with its respective maturities. TAG hedged a portion of the loans tied to the interest rate risk through an interest rate swap, by changing the variable rate for a fixed rate.

The loans mentioned above contain restrictive covenants, which require TAG to maintain certain financial ratios and limit dividend payments, loans and obtaining additional financing. TAG met such covenants as of June 30, 2018.

Long-term debt due dates are as follows:

Year		Amount
2018	$	59.0
2019		59.0
2020		59.0
2021		59.0
Thereafter		890.0
Total	$	1,126.0

b. ***Interest rate swaps***. In December 2015, TAG contracted derivative instruments in order to hedge the risk of variable interest rates originated from LIBOR. The fixed contracted interest rate is 2.5 percent for the debt maturing in December 2016, and 2.9 percent for the debt maturing in December 2034.

c. ***Exchange rate forwards***. TAG Pipelines Norte entered into forward contracts with five banks to exchange Mexican Pesos for U. S. Dollars of a portion of the projects revenues for 2016; maturing through 2016 and in the first quarter of 2017. Additionally, in September 2016, entered into forward contracts to exchange Mexican Pesos for U. S. Dollars of a portion of the projects' revenues for 2017; maturing through 2017 and in the first quarter of 2018.

5. Finance leases receivables

5.1. Finance lease receivables – Natural Gas Compression Plant

	As of			
	06/30/18		12/31/17	
Current finance lease receivables	$	366	$	308
Non-current finance lease receivables		13,628		13,827
	$	13,994	$	14,135

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.

5.1.1. Amounts receivable under finance leases

	Minimum lease payments As of		Present value of minimum lease payments As of	
	06/30/18	12/31/17	06/30/18	12/31/17
Not later than one year	$ 5,136	$ 5,136	$ 366	$ 308
Later than one year and not later than five years	19,260	21,828	3,265	3,464
More than five years	17,975	17,975	10,363	10,363
	42,371	44,939	13,994	14,135
Less: unearned finance income	(28,377)	(30,804)	n/a	n/a
Present value of minimum lease payments receivable	$ 13,994	$ 14,135	$ 13,994	$ 14,135

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The interest rate implicit in the finance lease is fixed at the contract date for the entire lease term.

The average effective interest rate contracted is approximately 34.5 percent as of June 30, 2018 and 2017. The receivable under finance lease balance as of June 30, 2018 and 2017 is neither past due nor impaired.

5.2. Finance lease receivables – Los Ramones I Pipeline

	As of	
	06/30/18	12/31/17
Current finance lease receivables	$ 4,186	$ 3,665
Non-current finance lease receivables	565,498	567,405
	$ 569,684	$ 571,070

Leasing arrangements

The Company entered into a finance lease arrangement for one of its natural gas pipelines and compression stations. The lease is denominated in U. S. Dollars. The term of the finance lease is 25 years.

5.2.1. Amounts receivable under finance leases

	Minimum lease payments As of		Present value of minimum lease payments As of	
	06/30/18	12/31/17	06/30/18	12/31/17
Not later than one year	$ 86,799	$ 87,104	$ 4,186	$ 3,665
Later than one year and not later than five years	429,236	424,616	30,047	28,108
More than five years	853,569	901,512	535,451	539,297
	1,369,604	1,413,232	569,684	571,070
Less: unearned finance income	(799,920)	(842,162)	n/a	n/a
Present value of minimum lease payments receivable	$ 569,684	$ 571,070	$ 569,684	$ 571,070

No residual values of assets leased under finance lease at the end of the year 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 15.2 percent as of June 30, 2018 and 2017. The receivable under finance lease balance as of June 30, 2018 and 2017, is neither past due nor impaired.

5.3. Finance lease receivables – Ethane Pipeline

	As of	
	06/30/18	12/31/17
Current finance lease receivables	$ 4,582	$ 4,153
Non-current finance lease receivables	358,702	360,952
	$ 363,284	$ 365,105

Leasing arrangements.

The Company entered into a finance lease arrangement for its ethane pipeline. The lease is denominated in U. S. Dollars. The term of the finance lease is 21 years.

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI Braskem-IDESA to Cangrejera (Veracruz), through a 20-inch and 4 km length pipeline. The term of the finance lease is 21 years.

Segment II. Transports ethane from Nuevo Pemex (Tabasco) to Cactus (Chiapas), through a 16-inch and 15 km length pipeline and from Cactus to the Ethylene XXI Complex (Braskem-IDESA) through a 24-inch and 133.5 km length pipeline. The term of the finance lease is 21 years.

Segment III. Transports liquid ethane from Ciudad Pemex to Nuevo Pemex (Tabasco) through a 20-inch and 73.5 km length pipeline. The term of the finance lease is 21 years.

The breakdown as of June 30, 2018 of this financial lease is as follows:

		Amount
Segment I	$	31,473
Segment II		185,088
Segment III		146,723
Total	$	363,284

5.3.1. Amounts receivable under finance leases

	Minimum lease payments As of				Present value of minimum lease payments As of			
	06/30/18		12/31/17		06/30/18		12/31/17	
Not later than one year	$	55,062	$	55,393	$	4,582	$	4,153
Later than one year and not later than five years		261,603		264,235		36,028		33,512
More than five years		364,170		388,982		322,674		327,440
		680,835		708,610		363,284		365,105
Less: unearned finance income		(317,551)		(343,505)		n/a		n/a
Present value of minimum lease payments receivable	$	363,284	$	365,105	$	363,284	$	365,105

No residual values of assets leased under finance lease at the end of the reporting year are estimated.

The average effective interest rate contracted is approximately 16.0 percent for Segment I and 14.0 percent for Segments II and III as of June 30, 2018 and 2017, respectively.

The receivable under finance lease balance as of June 30, 2018 and 2017, is neither past due nor impaired.

6. Asset acquisition

6.1. Don Diego Solar S. A. P. I. de C. V. ("Don Diego"), asset acquisition

On February 28, 2018, IEnova acquired 100 percent of the shares of Fisterra Midstream Mexico, S. de R. L. de C. V. (“Fisterra”) at a value of $5.1 million, which was renamed to Don Diego after acquisition. Don Diego is comprised of a Self-Supply Permit granted by the CRE in 2016. The Self-Supply Permit allows generators to compete directly with the Comision Federal de Electricidad (“CFE”) retail tariffs and thus have access to Power Purchase Agreements (“PPAs”) with significantly higher prices (~40 US/Megawatt-Hour "MWh") than the average price of the last Clean Energy Auction (~20 US/MWh).

The primary purpose of the transaction was for the Company to further grow its renewable energy business through the purchase of Don Diego to develop a solar project, a 125 MW facility in Benjamin Hill municipality in the state of Sonora, Mexico.

This transaction was accounted as an asset acquisition because Don Diego does not meet the definition of a business, since it does not have substantive inputs or processes.

a. ***Asset acquisition***

Entity	Main activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Don Diego	Energy infrastructure investments / Development of solar project	February 28, 2018	100%	$5,072

b. ***Assets acquired and liabilities recognized at the acquisition date***

		As of 02/28/18
Fair value of assets acquisition:		
Cash consideration (i)	$	5,072
Total fair value of assets acquisition	$	5,072
Cash and cash equivalents		24
Trade and other receivables		112
Other assets		2
Intangible assets		4,977
Current liabilities		(43)
Total identifiable, net assets	$	5,072

Valuation of Don Diego's assets and liabilities. Don Diego is substantially comprised of an intangible asset resulting from valuation of the Self-Supply Permit granted to the company by the CRE. This advantageous transmission tariff structure reduces the administrative costs to manage transmitting power to off- takers, providing an attractive opportunity for both the generator and the off-taker. With the recent reform to the renewable energy market in Mexico, self- supply permits are no longer being issued. New renewable power projects now receive a permit under the Electric Industry Law ("LIE"), which requires the renewable power facilities to pay higher tariffs/ charges, including transmission, Centro Nacional de Control de Energia ("CENACE") fees, imbalance, and distribution.

Based on the nature of the Self-Supply Permit and generally accepted industry practice, an income approach was utilized, based on a cash flow differential approach, to value the Self-Supply Permit. For all other assets and liabilities, the Company determined that the historical carrying value approximates fair value due to their short-term nature.

c. ***Net cash flow from acquisition of assets***

		As of 02/28/18
Cash consideration (i)	$	5,072
Less: balances of cash and cash equivalents acquired		(24)
Cash consideration, net	$	5,048

i. There was a cash payment for the amount of $3.0 million at closing and an amount of $2.1 million will become due and payable when whichever of the following occurs first: the Company has issued the final notice to proceed to the assigned Engineering Procurement and Construction contract or twelve months have elapsed following the execution date of the PPA.

7. Assets classified as held for sale and discontinued operations

In February 2016, management approved a plan to market and sell TDM, a 625-MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As a result, the Company classified TDM as held for sale, stopped depreciating the plant, and since recorded it each period at the lower of its carrying value and fair value less costs to sell.

On June 1, 2018, management terminated its sales process for TDM due to evolving strategic considerations for projects under development at the Company. As a result, the assets and liabilities that were previously classified as held for sell were reclassified as held and used, and depreciation resumed.

The property, plant and equipment that was reclassified has been measured at the fair value at the date of the subsequent decision not to sell, since fair value is lower than the carrying amount before it was classified as held for sale, adjusted for depreciation expense that would have been recognized had it been continuously classified as held and used. The difference between the carrying value and fair value at the date of the subsequent decision not to sell was negligible.

As a result of the reclassification of TDM to held and used, the operating asset category, discontinued operations in the Condensed Interim Consolidated Financial Statements of Profit were reclassified and re-presented in the line item of "Profit for the period" for the current and prior periods. There was no gain or loss recognized in the Condensed Interim Consolidated Financial Statements of Profit as a result of the change to the plan of sale of TDM and subsequent reclassification to held and used within the Power Segment.

8. Property, plant and equipment, net

Property, plant and equipment includes construction work in progress as follows:

	As of	
	06/30/18	12/31/17
Solar projects (i)	$ 112,501	$ —
Pipeline projects (ii)	45,039	—
Liquid terminals (iii)	37,120	14,265
Other projects	10,259	14,682
	$ 204,919	$ 28,947

The additions to property, plant and equipment during 2018 and 2017 are mainly comprised of construction in process, related to:

i. Pima, Tepezala and Rumorosa Solar projects, located in the states of Sonora, Aguascalientes and Baja California, Mexico, respectively.

ii. Mainly compression stations for the pipelines projects.

iii. Liquid terminals located in the states of Puebla, Veracruz, Mexico City and Baja California, Mexico.

Borrowing cost. During the six-month periods ended June 30, 2018 and 2017, the Company capitalized interest attributable to the construction in projects in the amount of $3.2 million and $4.0 million, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 4.1 percent and 3.0 percent, for the six-month periods ended June 30, 2018 and 2017, respectively.

9. Intangible assets

	As of	
	06/30/18	12/31/17
Carrying amounts of:		
Renewable transmission rights (i)	$ 159,132	$ 154,144
Operation & Maintenance ("O&M") Contract (ii)	44,566	44,566
Amortization	(13,464)	(8,511)
	$ 190,234	$ 190,199

i. Renewable transmission rights

On December 14, 2016, regarding Ventika, S. A. P. I. de C. V. and Ventika II, S. A. P. I. de C. V. jointly ("Ventika") wind power generation facility acquisition, the Company recorded $154.1 million related to the renewable transmission and consumption rights associated with the projects approved under the preexisting self-supply renewable program.

On February 28, 2018, the Company acquired a $5.0 million intangible asset related to Self-Supply Permit of the Don Diego Solar Project. (Please refer to Note 6.)

Amortization is calculated using the straight-line method based on the remaining useful life of the related intangible asset, over the term of the self-supply power agreements of 20 years and 15 years to Ventika and Don Diego,respectively.

ii. O&M Contract

In November 2017, the Company, through DEN´s asset acquisition, acquired an intangible asset related to the O&M contract with TAG, the amortization is calculated on a straight-line basis until the expiration of the Agreement in February 2041, equivalent to 23 years.

10. Carbon allowances

The Company is required by California Assembly Bill 32 to acquire carbon allowance for every metric ton of carbon dioxide equivalent emitted into the atmosphere during electricity generation. Under the bill, TDM is subject to this extraterritorial regulation, despite being located in Baja California, Mexico since their end users are located in California, U. S.

The Company records carbon allowances at the lower of weighted average cost or market value, and includes them as current or non-current on the Condensed Interim Consolidated Statements of Financial Position based on the dates that they are required to be surrendered. The Company measures the compliance of the obligation, which is based on emissions, at the carrying value of allowances held plus the fair value of additional allowances necessary to satisfy the obligation. The Company derecognized the assets and liabilities from the Condensed Interim Consolidated Statement of Financial Position as the allowances are surrendered.

Carbon allowances are shown in the Condensed Interim Consolidated Statements of Financial Position as follows:

	As of
	06/30/18
Assets	
Current	$ 37,959
Non-current	10,744
	$ 48,703

	As of 06/30/18
Liabilities (i)	
Current	$ 37,959
Non-current	8,940
	$ 46,899

i. Costs of carbon allowances of $8.9 million and $4.8 million were recorded in cost of revenues for the six-month periods ended June 30, 2018 and 2017, respectively and $3.9 million and $1.4 million for the three-month periods ended June 30, 2018 and 2017, respectively.

11. Short-term debt

Short-term debt includes:

	As of 06/30/18	As of 12/31/17
Credit agreement (i)	$ 272,062	$ 137,053
CEBURES at variable rate (Please refer to Note 12.a and 12.b)	—	65,871
Current portion of IEnova Pipelines Bank Loan (Please refer Note 12.c)	38,976	40,631
Current portion of Ventika's Bank Loan (Please refer Note 12.d)	24,469	22,588
	$ 335,507	$ 266,143
Borrowing costs of credit agreement	(2,762)	(3,383)
	$ 332,745	$ 262,760

i. Credit agreement. For the six-month period ended June 30, 2018, the Company withdrew $135.0 million.

As of June 30, 2018 and December 31, 2017, the available unused credit portion was $898.0 million and $1,033.0 million, respectively.

Dispositions of credit line to be used for working capital and general corporate purposes.

12. Long-term debt

Long-term debt includes:

	As of 06/30/18	As of 12/31/17
Senior Notes (f)	$ 840,000	$ 840,000
Santander – Ventika (d, e)	439,300	451,248
Bancomer – IEnova Pipelines (c)	258,800	277,175
CEBURES at fixed rate (a, b)	196,341	197,614
	$ 1,734,441	$ 1,766,037
Debt issuance costs	(33,017)	(33,997)
	$ 1,701,424	$ 1,732,040

a. ***CEBURES.*** On February 14, 2013, the Company entered into two public debt issuances of CEBURES or debt securities as follows:

i. The first placement was for $306.2 million ($3,900.0 million of historical Mexican Pesos) bearing interest at a rate of 6.30 percent, with semi-annual payments of interest, maturing in 2023.

ii. The second placement was for $102.1 million ($1,300.0 million of historical Mexican Pesos) bearing interest at variable rate based on the TIIE plus 30 BPS, with monthly payments of interest, maturing in 2018. The average annual rate as of June 30, 2017 was 6.53 percent.

On February 8, 2018, the Company made the repayment of the public debt issuance, CEBURES, of the second placement for an amount of $1,300.0 million of historical Mexican Pesos.

For this debt maturing in 2018, the Company swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments that were realized on this date, the Company received $1,300.0 million Mexican Pesos and paid $102.1 million U. S. Dollars. This payment ended the hedge contracted and the CEBURES liability.

b. ***Cross - currency and interest rate swaps.*** On February 14, 2013, regarding the placements of CEBURES, the Company executed cross-currency and interest rate swap contracts for hedging its exposure to the payment of its liabilities in Mexican Pesos:

i. For the debt maturing in 2023, the Company swapped a fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U. S. Dollars for this swap was 4.12 percent.

ii. For the debt maturing in 2018, the Company swapped a variable rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U. S. Dollars for this swap was 2.66 percent.

As of June 30, 2018, the swap's total notional value is $306.2 million ($3,900.0 million historical Mexican Pesos). These contracts have been designated as cash flow hedges.

c. ***Bancomer - IEnova Pipelines.*** On December 5, 2013, IEnova Pipelines signed a credit contract with Bancomer as agent and Deutsche Bank Mexico, Fiduciary Division, as Fiduciary. The amount of the loan is for $475.4 million, the proceeds of which will be used to develop the IEnova Pipelines projects. The four participating credit institutions are Bancomer with a 50.0 percent contribution, The Bank of Tokyo Mitsubishi ("Bank of Tokyo") with 20.0 percent, Mizuho with 15.0 percent and NORD/LB with 15.0 percent.

The loan calls for quarterly payments beginning on March 18, 2014, and ending in 2026 for a total term of 13 years.

The loan bears an interest at LIBOR plus 2.0 percent per year until the fifth anniversary, LIBOR plus 2.25 percent from the fifth to the eight anniversary, LIBOR plus 2.50 percent from the eighth to twelfth anniversary and LIBOR plus 2.75 percent from the thirteenth anniversary until maturity.

As of June 30, 2018, the long term debt maturity is as follows:

Year	Amount
2019	$ 38,975
2020	40,741
2021	43,625
Thereafter	174,433
	$ 297,774

In such credit, IEnova Pipelines was defined as debtor, TDF, S. de R. L. de C. V. ("TDF") together with Gasoductos de Tamaulipas, S. de R. L. de C. V. ("GdT") were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by IEnova Pipelines, TDF and GdT as source of payment for the credit.

Covenants arising from the credit require for the following:

i. Maintain a minimum member´s equity during the term of the loan, in the amounts indicated below:

Entity		Amount
IEnova Pipelines	$	450,000
GdT		130,000
TDF		90,000

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

As of the date of the Condensed Interim Consolidated Financial Statements, IEnova Pipelines has complied with these obligations.

On January 22, 2014, IEnova Pipelines contracted a financial derivative instrument (swap) with Bancomer, Bank of Tokyo, Mizuho and NORD/LB. Such swap is to cover the interest rate risk on its debt total amount. The financial instrument changes the LIBOR for a fixed rate of 2.63 percent.

IEnova Pipelines has designated the derivative financial instruments mentioned above under the model of cash flow hedges, in terms of what is permitted by the accounting standards. Given that, this interest rate swap, hedge objective is to set the flowing cash derived from interest payments on the syndicated loan maturing in 2026.

d. ***Project financing for the Ventika project.*** On April 8, 2014, Ventika entered into a project finance loan for the construction of the wind projects with five banks: Santander as administrative and collateral agent, NADB, Banco Nacional de Obras y Servicios Publicos, S. N. C. Institucion de Banca de Desarrollo (“BANOBRAS”), Banco Nacional de Comercio Exterior, S. N. C. Institucion de Banca de Desarrollo ("BANCOMEXT") and NAFINSA as lenders.

The credit facilities mature according to the following table, with payments due on a quarterly basis each March 15, June 15, September 15 and December 15, until the final maturity date, as follows:

Bank	Maturity date
SANTANDER	03/15/24
BANOBRAS	03/15/32
NADB	03/15/32
BANCOMEX	03/15/32
NAFIN	03/15/32

The breakdown of the debt is as follows:

Bank		As of 06/30/18
NADB	$	137,073
SANTANDER		100,354
BANOBRAS		88,118
BANCOMEXT		68,537
NAFINSA		68,537
Interest payable		1,151
	$	463,770

e. ***Interest Rate Swaps.*** In order to mitigate the impact of interest rate changes, Ventika entered into four interest rate swaps with Santander and BANOBRAS; this allows Ventika to have almost 92.0 percent of the mentioned credit facilities above at fixed rates. The swap contracts allow the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent respectively, and to receive variable interest rate (three-month LIBOR).

f. ***Senior Notes.*** On December 14, 2017, the Company entered into an agreement for $840.0 million international Senior Notes as follows:

i. The first placement was for $300.0 million bearing interest at a rate of 3.75 percent, with semi-annual payments of interest, maturing in 2028.

ii. The second placement was for $540.0 million bearing interest at a rate of 4.88 percent, with semi-annual payments of interest, maturing in 2048.

The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

13. Financial instruments

a. ***Foreign currency exchange rate***

Exchange rates in effect as of the date of the Condensed Interim Consolidated Financial Statements and their issuance date are as follows:

	Mexican Pesos					
		06/30/18		12/31/17		07/24/18
One U. S. Dollar	$	19.8633	$	19.7354	$	19.0694

b. ***Fair value of financial instruments***

13.1. Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the Condensed Interim Consolidated Financial Statements approximate their fair values.

	As of			
	06/30/18		12/31/17	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Financial lease receivables	$ 946,962	$ 946,962	$ 950,310	$ 950,310
Due from unconsolidated affiliates	596,204	656,509	491,422	552,152
Financial liabilities				
Financial liabilities held at amortized cost:				
Long-term debt (traded in stock exchange)	1,036,341	910,232	1,037,614	998,995
Loans from banks long-term	698,100	656,636	728,423	849,486
Loans from unconsolidated affiliates (Short-term)	579,800	579,800	509,800	509,800
Short-term debt	335,507	335,507	266,143	266,143
Loans from unconsolidated affiliates (Long-term)	74,341	68,002	73,460	69,967

13.2. 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:

i. 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.

ii. The Company determined the fair value of its long-term debt using prices quoted on recognized markets.

iii. For financial liabilities other than long-term debt, the Company determined the fair value of its financial liabilities carried at amortized cost by determining their present value as of each period end. The risk free interest rate used to discount the present value is adjusted to reflect the Company's own credit risk.

iv. The fair value of commodity and other derivative positions, which include interest rate swaps, are determined using market participant assumptions to price these derivatives. Market participants' assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

Significant assumptions used by the Company in determining the fair value of the following financial assets and liabilities are set out below.

Finance lease receivables. The fair value of finance lease receivables is estimated to be $947.0 million and $950.0 million as of June 30, 2018 and December 31, 2017, respectively, using the risk-free interest rate adjusted to reflect the Company's own credit risk.

13.3. Fair value measurements recognized in the Condensed Interim Consolidated Statements of Financial Position

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Also, management considers the Company's credit standing when measuring its liabilities at fair value.

The Company establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows.

i. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

ii. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability as of the reporting date, either directly or indirectly.

iii. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and are generally less observable from objective sources.

The assets and liabilities of the Company that were recorded at fair value on a recurring basis are listed in the following table and were classified as Level 1 and Level 2 in the fair value hierarchy as shown below:

	As of	
	06/30/18	**12/31/17**
Financial instruments assets at fair value through profit or loss ("FVTPL")		
Short-term investments (Level 1)*	$ 108,392	$ 56,901
Derivative financial instrument assets (Level 2)	8,384	8,065
Derivative financial instrument liabilities at FVTPL		
Derivative financial instrument liabilities (Level 2)	141,832	204,170

The Company does not have financial assets or liabilities classified as Level 3 and there were no transfers between Level 1 and 2 during the reporting periods presented.

* The short term investments include restricted cash by $57.3 million and $55.8 million as of June 30, 2018 and December 31, 2017, respectively.

14. Income taxes

The Company pays income taxes on an individual basis for each of its subsidiaries.

Income tax expense for interim periods is recognized based on Company management's best estimate of the effective income tax rate expected for the full financial year applied to the profit before income tax of the year and interim period.

Income tax for the six and three-month periods ended June 30, 2018 and 2017,are reconciled to the profit for the period as follows:

	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Profit before income tax and share of profits of joint ventures	$ 255,450	$ 193,334	$ 77,570	$ 63,965
Income tax expense calculated at 30%	(76,635)	(58,000)	(23,271)	(19,189)
Effects of foreign exchange rate	1,847	(79,889)	50,385	(29,180)
Effects of inflation adjustment	(6,025)	(16,549)	1,482	(1,742)
Effects of foreign exchange rate and inflation on the tax basis of property, plant and equipment, net and unused tax losses	22,380	159,125	(50,768)	53,138
Used and recognized Deferred tax assets	1,857	(28,462)	3,497	(28,462)
Other	(1,467)	4,323	(1,065)	3,029
Income tax expense recognized in the Consolidated Statements of Profit	$ (58,043)	$ (19,452)	$ (19,740)	$ (22,406)

The change in the effective tax rates was mainly attributable to the following:

i. The effect of foreign currency exchange gains or losses is being calculated on Mexican Pesos balances for financial reporting purposes, while the Mexican income tax law recognizes foreign exchange gains or losses on U. S. Dollar balances.

ii. The effect of exchange rate changes in the tax basis of property, plant and equipment, are valued in Mexican Pesos for tax purposes, while maintained in U. S. Dollars (functional currency) for financial reporting purposes. In addition, the Mexican income tax law takes into account the effects of inflation on such tax basis.

iii. The inflationary effects relative to certain monetary assets and liabilities.

iv. Tax losses used and recognized as a deferred taxes.

As of June 30, 2018, the Company has not recognized a deferred tax asset in the amount of $24.1 million generated by the deductible temporary differences between book value and tax basis of TDM.

The Company considers that there are no sufficient elements to ensure the total or partial recovery of the deferred tax asset.

15. Stockholders' equity

		As of June 30, 2018 and December 31,2017 (Mexican Pesos)			
Company stockholder's	Number of shares	Fixed shares	Variable shares	Total	Total shares in USD
SEMCO	1,019,038,312	$ 50,000	$ 16,009,083,120	$16,009,133,120	$ 751,825
Private investors	514,985,500	—	25,931,105,000	25,931,105,000	211,447
	1,534,023,812	$ 50,000	$ 41,940,188,120	$41,940,238,120	$ 963,272

16. Segment information

16.1. Products and services from which reportable segments obtain their revenues

Information reported for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segments are described and presented in Note 1.

The following tables show selected information by segment from the Condensed Interim Consolidated Statements of Profit and Condensed Interim Consolidated Statements of Financial Position.

16.2. Segment revenues and results

The following is an analysis of the Company's revenues and results by reportable segment:

	Segment revenues			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Gas:				
Revenues from customers	$ 421,155	$ 422,435	$ 211,098	$ 218,358
Revenues from unconsolidated affiliates	69,434	51,163	34,139	26,152
Intersegment revenues	151,267	142,231	69,349	69,458
Power:				
Revenues from customers	51,632	93,307	30,458	41,842
Revenues from unconsolidated affiliates	71,524	—	31,159	—
Corporate:				
Allocation of professional services with affiliates	875	982	521	486
Intersegment professional services	16,415	14,010	8,288	7,017
	782,302	724,128	385,012	363,313
Intersegment adjustments and eliminations	(167,682)	(156,241)	(77,638)	(76,475)
Total segment revenues	$ 614,620	$ 567,887	$ 307,374	$ 286,838

	Segment profit			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Gas	$ 243,020	$ 277,401	$ 135,354	$ 128,439
Power	32,550	(66,046)	21,207	(75,669)
Corporate	(45,753)	(20,603)	(54,249)	(6,977)
Total segment profit	$ 229,817	$ 190,752	$ 102,312	$ 45,793

Segment profit is the measure reported for the purposes of resource allocation and assessment of segment performance.

16.3. Assets and liabilities by segment

	As of	
	06/30/18	12/31/17
Assets by segment:		
Gas	$ 6,413,674	$ 6,385,681
Power	1,298,433	1,170,970
Corporate	839,190	607,208
Consolidated total assets	$ 8,551,297	$ 8,163,859

	As of	
	06/30/18	12/31/17
Liabilities by segment:		
Gas	$ 1,019,328	$ 1,030,611
Power	688,437	652,502
Corporate	2,069,520	1,964,159
Consolidated total liabilities	$ 3,777,285	$ 3,647,272

For the purposes of monitoring segment performance and allocating resources between segments:

i. All assets are allocated to reportable segments. Goodwill is allocated to reportable segments.
ii. All liabilities are allocated to reportable segments.

16.4. Other segment information

	Property, plant and equipment		Accumulated depreciation	
	As of		As of	
	06/30/18	12/31/17	06/30/18	12/31/17
Gas	$ 3,618,032	$ 3,569,528	$ (567,010)	$ (510,744)
Power	1,055,785	686,195	(218,471)	(24,885)
Corporate	70,438	18,881	(10,672)	(9,519)
	$ 4,744,255	$ 4,274,604	$ (796,153)	$ (545,148)

	Share of profits of joint ventures			
	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Gas	$ 28,682	$ 13,578	$ 41,501	$ 2,696
Power	3,728	3,292	2,981	1,538
	$ 32,410	$ 16,870	$ 44,482	$ 4,234

16.5. Revenue by type of product or services

The following is an analysis of the Company's revenues by major type of product or service for the six and three-month periods ended June 30, 2018 and 2017:

	Six-month period ended		Three-month period ended	
	06/30/18	**06/30/17**	**06/30/18**	**06/30/17**
Transportation of gas	$ 243,105	$ 201,893	$ 120,820	$ 108,419
Power generation	123,777	93,308	61,528	41,869
Sale of natural gas	87,490	74,404	53,922	39,848
Other operating revenues	65,053	88,707	31,666	43,542
Storage and regasification capacity	56,502	54,051	28,429	27,584
Natural gas distribution	38,693	55,524	11,009	25,576
Total revenues	$ 614,620	$ 567,887	$ 307,374	$ 286,838

Other operating revenues

i. IEnova Marketing received payments from SLNGIH related to the losses and obligations incurred in the amount of $50.7 million and $51.2 million for the six-month periods ended June 30, 2018 and 2017, respectively, and $26.7 million and $26.2 million for the three-month periods ended June 30, 2018 and 2017. Such balances are presented within the Revenues line item in the accompanying Condensed Interim Consolidated Statements of Profit.

ii. The Company reported damage and declared a force majeure event for the Guaymas - El Oro segment of the Sonora pipeline in the Yaqui territory that has interrupted its operations since August 23, 2017. There is no material economic impact due to this event. The Sasabe - Puerto Libertad - Guaymas segment remains in full operation.

17. Revenue from contracts with customers

17.1. Contracts with customers

The following table shows the distribution by type of revenue shown in the Condensed Consolidated Statement of Profit for the six and three-month periods ended June 30, 2018 and 2017:

	Six-month period ended		Three-month period ended	
	06/30/18	**06/30/17**	**06/30/18**	**06/30/17**
Revenue from operations:				
Contracts with customers	$ 464,555	$ 431,814	$ 225,925	$ 215,218
Lease revenue	80,888	86,133	39,522	46,816
Other revenue	69,177	49,940	41,927	24,804
Total revenue	$ 614,620	$ 567,887	$ 307,374	$ 286,838

17.2. Desegregation of revenue

Following is a breakdown of income from contracts with clients by type of product or service, operating segment and date on which obligations are met, as well as a reconciliation of total revenue per segment for the six-month period ended on June 30, 2018:

	Six-month period ended 06/30/18		
	Total subsidiaries	**Consolidation adjustments**	**Total**
By type of product or service:			
Service revenues:			
Power generation	$ 199,252	$ (75,475)	$ 123,777
Transportation of gas	184,856	(23,015)	161,841
Sale of natural gas	106,914	(37,931)	68,983
Storage of natural gas	96,823	(40,801)	56,022
Administrative services	71,062	(58,262)	12,800
Natural gas distribution	42,427	(1,295)	41,132
Total revenue from contracts with clients	$ 701,334	$ (236,779)	$ 464,555
By operating segment:			
Gas	431,020	(103,042)	327,978
Power	199,252	(75,475)	123,777
Corporate	71,062	(58,262)	12,800
Total revenue from contracts with clients	$ 701,334	$ (236,779)	$ 464,555
Obligations met:			
Over time	701,334	(236,779)	464,555
Total revenue from contracts with clients	$ 701,334	$ (236,779)	$ 464,555
Leases	80,888	—	80,888
Derivatives	26,148	(7,704)	18,444
Other Non IFRS 15	51,241	(508)	50,733
Total Revenue IFRS 15 + Non IFRS 15	$ 859,611	$ (244,991)	$ 614,620

The revenue from products and services shown in the preceding table arises independently from contracts with each of the clients with possible renewal provided in the contracts.

18. Earnings per share

18.1. Basic earnings per share

	Six-month period ended		Three-month period ended	
	06/30/18	**06/30/17**	**06/30/18**	**06/30/17**
Basic and diluted earnings per share	$ 0.15	$ 0.12	$ 0.07	$ 0.03

18.2. Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Six-month period ended		Three-month period ended	
	06/30/18	06/30/17	06/30/18	06/30/17
Earnings used in the calculation of basic and diluted earnings per share	$ 229,817	$ 190,752	$ 102,312	$ 45,793
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,534,023,812	1,534,023,812	1,534,023,812	1,534,023,812

The Company does not have potentially diluted shares.

19. Commitments

Material commitments of the Company are the same as those disclosed in the Consolidated Financial Statements for the year ended December 31, 2017, except for the following:

a. ***Veracruz marine terminal project.*** In the first six months of 2018, the Company entered into several contracts for the construction of the project. During the six-month period ended June 30, 2018, payments under these contracts were $20.4 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2018	$ 52,460

b. ***Puebla in-land terminal project***. In the first six months of 2018, the Company entered into several contracts for the construction of the project. During the six-month period ended June 30, 2018, payments under these contracts were $0.5 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2018	$ 14,458

In the first six months of 2018, the Company started several parcel land purchase negociations for the site on which the project will be constructed. Net future payments under these contractual commitments are as follows:

Year	Amounts
2018	$ 3,521

c. ***Mexico City in-land project***. In the first six months of 2018, the Company entered into several contracts for the construction of the project. During the six-month period ended June 30, 2018, payments under these contracts were $0.5 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2018	$ 14,318

In the first six months of 2018, the Company started several parcel land purchase negotiations for the site on which the project will be constructed. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	709

d. ***Tepezala II solar project.*** In the first six months of 2018, the Company entered into several contracts for the project. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	63,512
2019		27,110
	$	90,622

In the first six months of 2018, the Company entered into assignment agreements of the permits and rights of way. During the six-month period ended June 30, 2018, payments under these contracts were $ 1.5 million. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	3,778
2019		380
	$	4,158

In the first six months of 2018, the Company started several parcel land purchase negotiations for the site on which the terminal projects will be constructed. During the six-month period ended June 30, 2018, payments under these contracts were $0.2 million. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	58
2019		272
2020		272
Thereafter		4,346
	$	4,948

e. ***Rumorosa solar project.*** In the first six months of 2018, the Company entered into several contracts for the construction of the project. During the six-month period ended June 30, 2018, payments under these contracts were $1.0 million. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	14,872

f. ***PIMA solar project.*** In the first six months of 2018, the Company entered into several contracts for the construction of the project. During the six-month period ended June 30, 2018, payments under these contracts were $3.5 million. Net future payments under these contractual commitments are as follows:

Year		Amounts
2018	$	5,602

20. Contingencies

Major contingencies, regarding the Company's legal, administrative or arbitration procedures are the same as those disclosed in the Consolidated Financial Statements for the year ended December 31, 2017.

21. Application of new and revised IFRS

a. *Application of new and revised IFRSs or IAS that are mandatory effective for the current year.*

In the current year, the Company has applied a number of amendments to IFRS issued by the IASB that are mandatory effective for an accounting period that begins January 1, 2018.

IFRS 9 *Financial Instruments*

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 *Financial Instruments:*

Recognition and Measurement upon its effective date.

These requirements should be applied in a retrospective manner and as permitted by transitional provisions of IFRS 9, the entities are entitled not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition are recognized in the opening retained earnings of the current period.

Classification and measurement

The classification criteria depends on a combination of two important factors: a) business model definition, which refers to how an entity manages its financial assets in order to generate cash flows and b) cash flow characteristics which should be represented by solely payments of principal and interest. Upon of these factors fulfillment, the asset can be measured as following:

i. Amortized cost: financial instruments under a business model for which objective is to collect principal and interest cash flows, no significant unjustified sales exist and fair value is not a key factor in managing these financial assets and cash flows features substantially represent a "basic lending agreement" (Solely Payments of Principal and Interest ("SPPI")). Unjustified sales are different from sales related with an increase in the asset's credit risk or unanticipated funding needs.

ii. Fair value with changes recognized through other comprehensive income ("FVOCI"): financial instruments held in a business model for which objective is to collect principal and interest cash flows and the sale of these assets, and fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".

iii. Fair value with changes recognized through profit or loss ("FVTPL"): financial instruments included in a business model whose objective is not achieved through the above-mentioned models, fair value is a key factor in managing these assets, and financial instruments for which contractual cash flow characteristics do not substantially represent a "basic financing agreement".

Impairment

With the introduction of the new impairment model in IFRS 9, the IASB addressed the key concern that the incurred loss model in IAS 39 *Financial Instruments,* contributed to the delayed recognition of credit losses which arose as a result of the financial crisis. The new impairment requirements are based on a forward-looking expected credit loss ("ECL") model. The model applies to debt instruments measured at amortized cost or at FVOCI, as well as lease receivables, trade receivables, contracts assets (as defined in IFRS 15), and loan commitments and financial guarantee contracts that are not at FVPL.

In applying the IFRS 9 impairment requirements, an entity needs to apply one of the following approaches:

i. The general approach, which applies to most loans and debt securities.

ii. The simplified approach, which applies to most trade receivables.

IFRS 9 *implementation analysis*

The Company´s adoption date for IFRS 9 is on January 1, 2018, at the date of initial application and upon transitional provision under IFRS 9 the Company did not restate prior periods for comparative figures purposes and any difference that might come up as a result IFRS 9 adoption between previous carrying amounts and the carrying amount at the beginning of the annual reporting period should be allocated within the opening retained earnings. However, there are not differences identified.

As a result of the implementation strategy towards IFRS 9 adoption and based upon the classification and measurement requirements fulfillment, the Company concludes that all of its financial assets would remain recognizing under the current category as follows:

Assets	IAS 39 Measurement basis	IFRS 9 Measurement basis	Change
Cash and cash equivalents / restricted cash	Amortized cost	Amortized cost	No
Short term investments	FVTPL	FVTPL	No
Trade and other receivable, net	Amortized cost	Amortized cost	No
Trade receivables from unconsolidated related parties	Amortized cost	Amortized cost	No
Financial derivatives	FVTPL	FVTPL	No

Trades and receivables under a finance lease scheme, although meet the Financial Asset definition, are ruled out from the IFRS 9 scope of, however lease receivables recognized by a lessor and finance lease payables recognized by a lessee are subject to the derecognition requirements of IFRS 9 and in the case of lease receivables by the lessor impairment requirements under IFRS 9 are also applicable.

In general, equity or debt instruments classified as available-for-sale financial assets will continue to be measured at FVOCI.

Regarding financial liabilities, classification and measurement criteria under IAS 39 has been carried forward to IFRS 9, including the fair value option. The change is that IFRS 9 addresses the issue related to own credit risk for financial liabilities and calls for recognition under other comprehensive income. There are no financial liabilities within the Company's Financial Statements subject to this requirement.

Based on the implementation strategy towards IFRS 9 impairment adoption, the Company concludes that the financial assets mainly affected by impairment losses under the expected loss model are trade and other receivables, net and trade receivables from unconsolidated related parties. Considering the maturity, the Company is confident that simplified approach suits better for the operation and no significant financial impact in the financial statements was determined.

However, changes in the credit quality and probability of default of accounts receivable and assets with significant financing components will be monitored in order to adjust the probability of default, severity and expected loss if necessary.

Accounting for Hedges

IFRS 9 provides an accounting policy option which establishes that the entities may continue to apply the hedge accounting requirements in IAS 39, waiting for the end of the macro hedging project, or apply the IFRS 9.

This choice of accounting policy will be applied to the entire hedge accounting portfolio and cannot be performed on a hedge by hedge basis. In this regard, the Company chose to continue using IAS 39 methodology.

This choice of accounting policy is applied only to the application of hedge accounting and has no impact on the implementation of the principles of IFRS 9 regarding "Classification and Measurement" and "Impairment".

IFRS 15 *Revenue from Contracts with Customers*

On January 1, 2018, the Company adopted the provisions of new IFRS 15 *Revenue from Contracts with Customers* applying the modified retrospective adoption method. The Company has not adopted in advance any interpretation or amendments issued but not yet effective.

The Company has evaluated revenue recognition and measurement based on the five-step model specified in IFRS 15 and has identified no significant financial impact. As a result, no significant adjustments have arose from adoption, although a relevant change is the significant increase in the disclosures required in the Financial Statements.

Please refer to Note 17 for additional disclosures concerning the nature, quantity, timing and uncertainty of revenue arising from contracts with customer.

b. ***New and revised IFRSs issued but not yet effective***

The Company has not applied the following new and revised IFRS that have been issued but have not being enforced:

i. Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures* (1)
ii. IFRS 16, *Leases* (2)
iii. Amendments to IFRSs, *Annual Improvements to IFRS Standards 2015-2017 Cycle (2)*
iv. IFRS 17, *Insurance Contracts* (3)
v. International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 23, *Uncertainty over Income Tax Treatments* (2)

(1) Effective date is deferred indefinitely, early adoption of the September 2014 amendments-continues to be permitted.
(2) Effective for annual periods beginning on or after January 1, 2019.
(3) Effective for annual periods beginning on or after January 1, 2021.

Amendments to IFRS 10 *Consolidated financial statements and IAS 28 Investment in Associates and Join Venture*

Amendments to IAS 28 require that gains and losses resulting from transactions between an entity and its associate or joint venture relate only to assets that do not constitute a business. As well, a new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's Financial Statements.

Additionally, an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

On the other hand, for Consolidated Financial Statements, an exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

IFRS 16 *Leases*

IFRS 16 *Leases* was issued in January 2016 and supersedes IAS 17 *Leases* and related interpretations. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 *Revenue from Contracts with Customers'* has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

Regarding the transition methodology to be used, the Company will be using the modified retrospective method.

Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements include amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23 which are effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 3 *Bussiness Combinations* clarify that when an entity obtains control of a business that is a joint operations, it remeasures previously held interest in that business. The amendments to IFRS 11 *Joint Arrangements* clarify that when an entity obtains control of a business that in not a joint operation the entity does not remeasure previously held interest in that business.

Amendments to IAS 12 *Income Tax* clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regarding of how the tax arises.

Amendments to IAS 23 *Borrowing Cost* clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization on general borrowings.

The Company is in the process of determining the potential impacts that will derive from the adoption of these amendments in its Condensed Interim Consolidated Financial Statements.

IFRS 17 ***Insurance Contracts***

IFRS 17 was issued in May 2017 as replacement of IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re measured each reporting period. Contracts are measured using the building blocks of: 1) discounted probability-weighted cash flows, 2) an explicit risk adjustment, and 3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.
The standard allows to choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their Financial Assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying, the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the Financial Statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is applied for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted for entities that apply IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

The Company is in the process of evaluating the potential effects of implementing this new standard in its financial information.

IFRIC 23 ***Uncertainty over Income Tax Treatments***

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 *Income taxes* when there is uncertainty over income tax treatments. Uncertain tax treatments are a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings.

The Company is in the process of evaluating of potential effects that could generate the implementation of these changes if any applicable.

22. Events after the reporting period

a. ***Marine terminal in Topolobambo.*** On July 8, 2018, the Company was awarded the Administracion Portuaria Integral de Topolobampo, S. A. de C. V. ("Topolobampo API") bid for a 20-year transfer of its concession rights of an area to build and operate a marine terminal for the receipt and storage of hydrocarbons and other liquids.

The terminal will be located in Topolobampo, Sinaloa, Mexico and will have an initial storage capacity of approximately one million barrels, for storage primarily of gasoline and diesel. The investment is expected to be approximately $150.0 million, and commercial operations are expected to commence in the fourth quarter of 2020.

The Company signed a long-term contract with Tesoro de Mexico Supply & Marketing, S. de R. L. de C. V., for approximately 51 percent of the terminal's storage capacity and secured the signing of a second agreement with a third party for the other 49 percent.

b. ***Withdrawal of credit line.*** In July 2018, regarding the credit line mentioned in Note 11.a., the Company withdrew $75.0 million, such credit line to be used for working capital and general corporate purposes.

c. ***Dividends declared.*** Pursuant to a resolution of the General Ordinary Shareholders' Meeting held on April 27, 2018, the Board of Directors, in its meeting held on July 24, 2018, resolved to pay a cash dividend on August, 2018 in the amount of $210.0 million.

23. Approval of financial statements

The Condensed Interim Consolidated Financial Statements were approved and authorized for issuance by Manuela Molina Peralta, Chief Financial Officer on July 24, 2018.

24. Registered offices

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juarez, C.P. 06600
  Ciudad de Mexico, Mexico.
- Campos Eliseos No. 345 Piso 4
  Torre Omega
  Col. Chapultepec Polanco C.P. 11560
  Ciudad de Mexico, Mexico.
- Carretera Escenica Tijuana – Ensenada Km. 81.2
  Col. El Sauzal, C. P. 22760
  Ensenada, B.C., Mexico.
- Carretera Mexicali Tijuana Km. 14.5
  Col. Sonora, C. P. 21210
  Mexicali, B.C., Mexico.
- Avenida Tecnologico No. 4505
  Col. Granjas, C. P. 31160
  Chihuahua, Chihuahua, Mexico.
- Avenida Constitucion Poniente No. 444
  Col. Monterrey Centro C. P. 64000
  Monterrey, Nuevo Leon, Mexico.

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“Pro forma additional information”

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Pro forma Combined Statements of Financial Position

As of June 30, 2017
(In thousands of U. S. Dollars)

	As of June 30, 2017				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries	Ductos y Energeticos del Norte S. de R. L. de C.V.	Pro forma Adjusments	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro forma
Assets					
Current assets:					
Cash and cash equivalents	$ 28,041	$ 13,067	—		$ 41,108
Short-term investments	2,981	—	—		2,981
Finance lease receivables	7,621	—	—		7,621
Trade and other receivables, net	104,960	—	—		104,960
Due from unconsolidated affiliates	11,289	4,135	(5,093)	a	10,331
Income taxes receivable	69,226	7	—		69,233
Natural gas inventories	10,880	—	—		10,880
Derivative financial instruments	833	—	—		833
Value added tax receivable	43,083	656	—		43,739
Other assets	9,900	17	—		9,917
Restricted cash	68,155	—	—		68,155
Assets held for sale	160,449	—	—		160,449
Total current assets	517,418	17,882	(5,093)		530,207
Non-current assets:					
Due from unconsolidated affiliates	282,450	3,127	(92,153)	a	193,424
Derivative financial instruments	65	—	—		65
Finance lease receivables	946,962	—	—		946,962
Deferred income tax assets	86,136	9,973	587	b	96,696
Investments in joint ventures	205,581	169,606	109,142	a, b	484,329
Other assets	5,064	—	—		5,064
Property, plant and equipment, net	3,692,281	1,593	—	c	3,693,874
Intangible assets	152,064	—	40,210	c	192,274
Goodwill	1,651,780	—	—		1,651,780
Total non-current assets	7,022,383	184,299	57,786		7,264,468
Total assets	$ 7,539,801	$ 202,181	$ 52,693		$ 7,794,675

Liabilities and Stockholders' Equity

	As of June 30, 2017				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries	Ductos y Energeticos del Norte S. de R. L. de C.V.	Pro forma Adjusments	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro forma
Current liabilities:					
Short-term debt	$ 647,065	$ —	$ 256,966	a, b	$ 904,031
Trade and other payables	50,812	106	—		50,918
Due to unconsolidated affiliates	362,312	3,974	(6,905)	a	359,381
Income tax liabilities	12,513	—	—		12,513
Derivative financial instruments	42,948	—	—		42,948
Other financial liabilities	6,596	—	—		6,596
Provisions	730	—	—		730
Other taxes payable	32,090	1,161	—		33,251
Other liabilities	25,352	—	—		25,352
Liabilities related to assets held for sale	81,800	—	—		81,800
Total current liabilities	1,262,218	5,241	250,061		1,517,520
Non-current liabilities:					
Long-term debt	976,028	—	—		976,028
Due to unconsolidated affiliates	41,587	182,265	(182,266)	a	41,586
Deferred income tax liabilities	504,211	—	—		504,211
Provisions	53,566	—	—		53,566
Derivative financial instruments	145,620	—	—		145,620
Employee benefits	6,171	—	—		6,171
Total non-current liabilities	1,727,183	182,265	(182,266)		1,727,182
Total liabilities	2,989,401	187,506	67,795		3,244,702
Stockholders' Equity:					
Common stock	963,272	331	(331)	a	963,272
Additional paid-in capital	2,351,801	—	—		2,351,801
Accumulated other comprehensive loss	(117,321)	(19,826)	9,913	a	(127,234)
Retained earnings	1,352,648	34,170	(24,684)	a	1,362,134
Total equity	4,550,400	14,675	(15,102)		4,549,973
Total liabilities and equity	$ 7,539,801	$ 202,181	$ 52,693		$ 7,794,675

See accompanying notes to the Pro forma Combined Financial Statements.

Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries

Pro forma Combined Statements of Profit

For the six-month period ended June 30, 2017
(In thousands of U.S. Dollars)

	For the six-month period ended June 30, 2017				
	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries	Ductos y Energeticos del Norte, S. de R. L. de C. V.	Pro forma Adjustments	Notes	Infraestructura Energetica Nova, S. A. B. de C. V. and Subsidiaries Pro forma
Revenues	$ 567,887	$ 11,089	$ (3,784)	a, c	$ 575,192
Cost of revenues	(138,151)	—	—	a, c	(138,151)
Operating, administrative and other expenses	(99,303)	(4,099)	3,784	a, c	(99,618)
Depreciation and amortization	(55,903)	(38)	(868)		(56,809)
Impairment of TDM	(63,804)	—	—		(63,804)
Interest income	4,580	124	(2,297)	a, c	2,407
Finance costs	(27,984)	(4,368)	2,151	a, c	(30,201)
Other gains (losses), net	6,012	(136)	—	a, c	5,876
Profit (loss) before income tax and share of profits of joint ventures	193,334	2,572	(1,014)		194,892
Income tax (expense) benefit	(19,452)	(7,391)	587		(26,256)
Share of profits (losses) of joint ventures, net of income tax	16,870	31,007	(13,094)		34,783
Profit (loss) for the period	$ 190,752	$ 26,188	$ (13,521)		$ 203,419

See accompanying notes to the Pro forma Combined Financial Statements.

Notes to the Pro forma Combined Financial Statements

As of June 30, 2017 and for the six-month period ended June 30, 2017
(In thousands of U.S. Dollars except where otherwise stated)

1. Activities

Infraestructura Energetica Nova, S. A. B. de C. V. and subsidiaries (collectively, the "Company") is located and incorporated in Mexico. Its parent and ultimate holding company is Sempra Energy (the "Parent"), domiciled and incorporated in the State of California in the United States of America ("U .S ."). The address of the Company's registered offices is Paseo de la Reforma No. 342 Piso 24, Torre New York Life, Colonia Juarez, Ciudad de Mexico.

The Company operates in the energy sector and is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova.

The Gas segment develops, owns and operates, or holds interests in, natural gas, LPG and ethane pipelines, storage facilities for liquified natural gas ("LNG"), LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo Leon and Jalisco, Mexico. It also owns and operates an LNG terminal in Baja California, Mexico, for importing, storing and regasifying LNG.

The Power segment develops three solar projects located in Baja California, Aguascalientes and Sonora, Mexico, owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, owns a wind farm located in Nuevo Leon, Mexico and holds interests in a renewable energy project in a joint venture in Baja California, Mexico, both renewable energy projects use the wind resources to serve costumers in Mexico and in the U. S., respectively.

The Company develops a projects for the construction of marine and in-land terminals for the reception, storage and delivery of refined products, located in the state of Veracruz, Mexico City, Puebla, and Baja California, Mexico, respectively.

2. Description of the asset acquisition, the "Transaction"

On November 15, 2017, IEnova completed the acquisition to Pemex Transformacion Industrial ("Pemex TRI") of the 50 percent interest in Ductos y Energeticos del Norte S. de R. L. de C. V. ("DEN"), a joint venture that holds a 50 percent interest in the Los Ramones Norte pipeline, through TAG Norte Holdings S. de R. L. de C. V. ("TAG"), for a purchase price of $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 million of intercompany debt. This acquisition increased IEnova's ownership interest in TAG from 25 percent to 50 percent. IEnova Pipelines previously accounted for its 50 percent interest in DEN as an equity method investment. As of November 1, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. DEN will continue to account for its interest in TAG as on equity method investment.

This transaction was accounted as an asset acquisition because DEN does not meet the definition of a business, since it does not have substantive inputs or processes. DEN's most significant asset is its equity method investment in TAG, the entity that owns the Los Ramones Norte pipeline. The excess consideration over the fair value of assets acquired and liabilities assumed was allocated on a relative fair value basis between the equity investment in TAG and an acquired intangible asset related to an Operation and Maintenance ("O&M") contract with TAG.

3. Description of the Transaction Financing

The Company financed the Transaction through the disposition of a credit line ("the credit line"), up to the amount of the Transaction related. Debt and interest expense are included in the Pro forma Combined Financial Statements.

4. Basis for presentation of the Pro forma Combined Financial Statements

The accounting policies applied in the preparation of the Pro forma Combined Financial Statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Pro forma Combined Statements of Financial Position and the Pro forma Combined Statements of Profit have been prepared based on the assumptions that the Company's management believes are appropriate in the current circumstances.

The Pro forma Combined Financial Statements include the Pro forma Combined Statements of Financial Position as of June 30, 2017 and the Pro forma Combined Statements of Profit for the six-month period ended June 30, 2017.

The Pro forma Combined Financial Statements present the financial information of the Company as if the DEN Acquisition and its financing occurred (i) with respect to the Pro forma Combined Statements of Financial Position as of June 30, 2017 and (ii) with respect to the Pro forma Combined Statements of Profit for the six-month period ended June 30, 2017.

Accordingly, the Pro forma Combined Financial Statements were compiled using the following information:

i. The Company's unaudited Condensed Interim Consolidated Statement of Financial Position as of June 30, 2017 and the unaudited Condensed Interim Consolidated Statement of Profit for the six-month period ended June 30, 2017, prepared in accordance with IFRS.

ii. The DEN's unaudited Condensed Interim Statement of Financial Position as of June 30, 2017 and the unaudited Condensed Interim Statement of Profit for the six-month period ended June 30, 2017, prepared in accordance with IFRS.

5. Pro forma adjustments

Pro forma adjustments as of June 30, 2017, included in the accompanying Pro forma Combined Statements of Financial Position and for the six-month period ended June 30, 2017, included in the Pro forma Combined Statements of Profit as described below, represent the DEN's asset acquisition and its financing had taken place on January 1, 2017.

This information is not intended to present the Company's results of operations or its financial position as though the DEN asset acquisition had occurred on the aforementioned dates, nor is it intended to project the Company's operating results and financial position for any future periods or as of any future dates.

In order to present the effects of the DEN asset acquisition in the Pro forma Financial Statements the management applied certain pro forma adjustments to the historical figures of the related companies.

Adjustments to the Pro forma Combined Statements of Financial Position as of June 30, 2017 and adjustments to the Pro forma Combined Statements of Profit for the six-month period ended June 30, 2017:

a. The pro forma adjustments represent the consolidation of DEN, elimination of previous equity method of joint venture in the Company from DEN, related party balances and transactions, including payment of debt from stockholders of DEN.

b. The withdrawal of the credit line including the application of the funds to the payment of the transaction.

c. TAG is not part of the assignment agreement. Therefore, the pro forma adjustments exclude the assets and liabilities related to TAG. After the Transaction completion, the Company will hold a 50 percent joint venture investment in TAG.

d. Pursuant to the Assignment Agreement, tax and accounting treatment of the transaction must be consistent, therefore, it was considered as an acquisition of equity interest for the purposes of income tax law.

6. Recognized amounts of identifiable assets acquired and liabilities assumed of DEN

		As of 06/30/17
Current assets	$	12,789
Non-current assets, mainly property, plant and equipment, net and other assets		97,239
Current and long-term liabilities		(5,240)
Total identifiable net assets		104,788
Remeasurement in joint venture investments in accordance with pro forma adjustments		109,142
Intangible assets		41,078
Acquisition costs paid		(143)
Payment of loans acquired through DEN acquisition		(90,113)
Total consideration transferred	$	164,752

The pro forma adjustments include the amounts of identifiable assets acquired and liabilities assumed and consolidation adjustments of DEN.

The effect on stockholders' equity, including the elimination of DEN, is summarized as follows:

Stockholder's equity		**As of 06/30/17**
Capital stock	$	(331)
Accumulated other comprehensive loss		9,913
Retained earnings		(24,684)
	$	(15,102)

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