The English version is a translation of the original in Spanish and is for informational purposes only.
In case of a discrepancy, the Spanish original will prevail.

Annual report pursuant to the Mexican Rules for Securities Issuers and for Other Securities Market Participants, for the year ended December 31, 2018.

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

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As of December 31, 2018, Infraestructura Energética Nova, S.A.B. de C.V. (the "Company") had 1,534,023,812 shares of a single series of stock outstanding, of which 5,000 were Class I registered shares of common stock, no par value, representing the fixed portion of the Company's capital and 1,534,018,812 were Class II registered shares of common stock, no par value, representing the variable portion of the Company's capital.

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

The Company had a program for the issuance of up to Ps.12.8 billion in domestic senior notes (*certificados bursátiles*), or Notes, which was approved by the Mexican Banking and Securities Commission pursuant to official communication No. 153/6298/2013. This program expired on February 11, 2018. The Company has one series of Notes outstanding under this program as of December 31, 2018, which are listed for trading on the Mexican Stock Exchange under the symbols "**IENOVA 13**". The series "**IENOVA 13-2**" was paid at maturity on February 8, 2018.

Registration with the Mexican Securities Registry does not imply any certification as to the investment quality of the Company's securities, solvency or the accuracy or completeness of the information contained in this report and such registration does not ratify or validate acts, if any, undertaken in contravention of applicable law.

Terms and conditions of the Notes:

"IENOVA 13"

Amount of Issue: Ps.3.9 billion.
Issue price: Ps.100.0 each.
Issuance date: February 14, 2013.
Maturity date: February 2, 2023.
Term of Issue: Up to 3,640 days, or approximately 10 years divided into 20, 182-day periods.
Interest; determination procedure: These Notes accrue interest at a fixed, annual gross rate of 6.30%, as determined based on the face value thereof.
Interest payment dates: Ordinary interest on the notes are due and payable every 182 days in accordance with the payment schedule.
Principal and interest payment place and method: The Company makes all payments of principal and interest under the Notes by electronic wire transfer through the facilities of S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., or Indeval, located at Paseo de la Reforma No. 255, Tercer Piso, Colonia Cuauhtémoc, Delegación. Cuauhtémoc, 06500 Ciudad de México, upon surrender of the relevant certificate or evidence of its deposit with Indeval. Indeval distributes the proceeds from each such payment to the accounts designated to such effect by its participants, for their subsequent distribution to the note holders.
Repayment of principal: The Company will repay the principal amount of the Notes in a single installment on the Maturity Date.
Early full Repayment of Principal: The Company may prepay all (but not only a portion) of these Notes at any time beginning on the fifth anniversary of the Issue Date.
Collateral: The Notes are secured by all of the Company's assets as a whole, rather than by a specific item of collateral.
S&P rating of the issuance: "mxAA", which is a level under the highest issuer credit rating assigned by Standard & Poor's, S.A. de C.V. under its CaVal scale and is indicative of the issuer's strong capacity to meet its financial commitments relative to other domestic issuers. The rating does not

constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Standard & Poor's, S.A. de C.V.

Moody's rating: "Aa1.mx", which is a strong rating relative to other Mexican issuers. The rating does not constitute an investment recommendation and is subject to revision at any time in accordance with the rating methodologies employed by Moody's de México, S.A. de C.V.

Joint Representative of the Note holders: Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, Fiduciario.

Depositary: Indeval.

Taxation: Interest payments on the Notes are subject to Mexican income tax withholding at the rates specified in the following provisions: (i) in the case of individuals and entities who are Mexican residents for tax purposes, articles 18, 135 and other related provisions of the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*), as currently in effect; and (ii) in the case of individuals and entities who are non-Mexican residents for tax purposes, articles 153, 166 and other related provisions of the Mexican Income Tax Law, as currently in effect. Prospective buyers should consult with their own advisors as to the tax consequences of an investment in the Company's Notes, including the specific rules applicable to them in light of their individual circumstances.

Negative Covenants: Until such time as the Notes have been repaid in full, the Company may not enter into any merger (or other consolidation) except where (i) the surviving entity expressly assumes the Company's obligations under the Notes and (ii) such merger or consolidation does not give rise to an acceleration event under the Notes. The terms of the Notes do not contain any negative covenant with respect to changes in the Company's control, or to the sale of the Company's indispensable assets or the creation of liens thereon.

TABLE OF CONTENTS

PRESENTATION OF INFORMATION 1

GLOSSARY OF TERMS AND DEFINITIONS 3

EXECUTIVE SUMMARY 11

RISK FACTORS 19

OTHER SECURITIES 49

MATERIAL CHANGES IN THE TERMS OF THE COMPANY'S REGISTERED SECURITIES 49

USE OF PROCEEDS 49

PUBLIC DOCUMENTS 51

THE ISSUER 52

a) The Company's History and Evolution 52

b) Business description 54

i) Main activity 54

ii) Distribution Channels 60

iii) Patents, licenses, trade - marks and other contracts 60

iv) Main customers 61

v) Legal Framework and Taxation 62

vi) Human Resources 84

vii) Environmental Performance 84

viii) Market Information 85

ix) Corporate Structure 111

x) Description of The Company's principal Assets 114

xi) Legal, Administrative and Arbitration Proceedings 154

xii) Shareholders' equity 156

xiii) Dividends 158

xiv) Foreign Exchange Restrictions and Other Limitations Affecting the Holders of the Company's Securities 158

SELECTED CONSOLIDATED FINANCIAL INFORMATION 159

a) Selected Financial Information 159

b) Financial Information by Business Segment 163

c) Material Financing Arrangements 167

d) Management's Discussion and Analysis of Financial Condition and Results of Operation 173

i) Results of Operations 178

ii) Financial Condition, Liquidity and Capital Resources 184

iii) Internal Controls 196

e) Critical Accounting Estimates, Provisions and Reserves 196
MANAGEMENT 200
a) Independent Auditors 200
b) Related Party Transactions and Conflicts of Interest 201
c) Management and shareholders 209
d) The Company's Bylaws and Other Agreements 220
e) Other Corporate Governance Practices 227
TRADING MARKET 230
a) Share Ownership Structure 230
b) Performance of The Company's Shares on the Mexican Stock Exchange 230
c) Market Maker 232
UNDERLYING ASSETS 232
MANAGEMENT CERTIFICATION 233
EXHIBIT 234

PRESENTATION OF INFORMATION

Financial Statements

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

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

This report includes the Company's audited consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016. The Company's audited consolidated financial statements have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, as stated in its report included elsewhere herein.

Market Estimates

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

The Company has made these statements, on the basis of information from third party sources that believes are reliable as well as commonly used statistics in Mexico, including among others:

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

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

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

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

Rounding

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

Other Information

Certain Mexican peso amounts contained in this report have been translated into U.S. Dollars. Unless otherwise indicated, the exchange rate used to translate such amounts was Ps.19.6829 to USD$1.00, which was the selling exchange rate in effect on December 28, 2018, as reported by Banco de México in the Mexican Official Gazette.

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

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

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

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

Description of The Company's Contracts and Permits

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

GLOSSARY OF TERMS AND DEFINITIONS

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

Term	Definition
"Acciona"	Acciona Energía, S.A.
"Actis"	Actis LLP, an asset management entity, through its subsidiary Saavi Energía, participates in a joint venture with the Company.
"Aguaprieta pipeline"	The 20-inch diameter pipeline with an approximate length of 13 km and a capacity of 200 MMcfd (2.1 MMThd).
"Antitrust Commission" or "COFECE"	Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*).
"audited financial statements"	The Company's audited consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016, including the notes thereto.
"API"	Integral Port Administration. (*Administración Portuaria Integral*)
"Autlán"	Compañía Minera Autlán, S.A.B. de C.V.
"Baja Refinados Terminal"	Refined petroleum products storage terminal located in Baja California that is currently under construction. The project will have a capacity of 1,000,000 bl.
"Banco Nacional de México"	Banco Nacional de Mexico, S.A., Integrante del Grupo Financiero Banamex.
"Banco Santander (México)" or "Santander"	Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México.
"Bancomext"	Banco Nacional de Comercio Exterior, S.N.C.
"Banking and Securities Commission"	Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*).
"Banobras"	Banco Nacional de Obras y Servicios Públicos, S.N.C.
"basis point"	One-hundredth of one percent (e.g., 30 basis points = 0.30%).
"BBVA Bancomer"	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
"bl"	Barrels.
"BlackRock"	BlackRock, an asset management entity.
"Blackstone"	Blackstone Energy Partners.
"Bloomberg"	Bloomberg L.P.
"BP"	BP plc, and its subsidiaries, formerly British Petroleum, is an energy company dedicated mainly to oil and natural gas.
"bpd"	Barrels per day.
"CAISO"	California Independent System Operator
"CEBURES" or "Notes"	The Company's domestic senior notes (Certificados Bursátiles).
"CEL"	Clean energy certificates.
"CEMEX"	Cemex, S.A.B. de C.V. (and affiliates).
"Chevron"	Chevron Combustibles de México, S. de R.L. de C.V.
"Company"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.

"Credit Suisse México"	Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México).
"DeAcero"	DeAcero, S.A.P.I. de C.V. (and affiliates)
"DEN"	Ductos y Energéticos del Norte, S. de R.L., the former joint venture between the Company and Pemex TRI until November 2017.
"Dollars" or "USD$"	U.S. Dollars, the official currency of the United States.
"Don Diego Solar"	Solar power plant of 125 MW_{AC} capacity that is under construction and is located in the municipality of Benjamín Hill in the State of Sonora.
"Downstream"	Refining, marketing and distribution.
"EBITDA"	Earnings before interest, taxes, depreciation and amortization.
"ECOGAS"	Ecogas México, S. de R.L. de C.V., the natural gas distribution system.
"Empalme Lateral pipeline"	The 20 km, 20-inch diameter pipeline with a natural gas transportation capacity of 226 MMcfd (2.4 MMThd), located between Empalme and Guaymas, where it is connected to the Sonora pipeline.
"Energía Sierra Juárez"	Energía Sierra Juárez, S. de R.L. de C.V., a 155 MW wind powered generation project, located in Baja California, in which the Company and Actis each hold a 50% equity interest. The wind park second stage is under construction and will have a capacity of 108 MW.
"Energy Regulatory Commission" or "CRE"	The Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*).
"Environmental Protection Enforcement Agency" or "PROFEPA"	Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*).
"Ethane pipeline"	It is a three-segment pipeline with a length of approximately 224 km. Its transportation capacity is up to approximately 52 MMcfd (0.6 MMThd) of the ethane gas in the first segment, approximately 152 MMcfd (1.8 MMThd) of ethane gas in the second segment, and approximately 106,000 bpd (3.1 MMThd) of liquid ethane in the third segment. It transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas and Veracruz to the Ethylene XXI ethylene and polyethylene polymerization facility in the State of Veracruz.
"Exchange rate"	The Mexican peso/U.S. Dollar exchange rate published by Banco de México in the Mexican Official Gazette
"FCA"	Fiat Chrysler Automobiles, N.V.
"Federal Electricity Commission" or "CFE"	The Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*), a productive state-owned company.
"FEMSA"	Fomento Económico Mexicano, S.A.B. de C.V.
"FERC"	The U.S. Federal Energy Regulatory Commission.
"Gasoductos de Chihuahua" or "GdC"	In Gasoductos de Chihuahua, S. de R.L. de C.V., the Company was partners with Pemex TRI until September 26, 2016. The name of Gasoductos de Chihuahua was changed to IEnova Pipelines.
"Gasoductos del Sureste"	Gasoductos del Sureste, S. de R.L. de C.V., a subsidiary of the Company and owner of the Ethane pipeline.
"Gazprom"	Gazprom Marketing & Trading México, S. de R.L. de C.V.
"GDP"	Mexico's gross domestic product.
"Gloria a Dios compression station"	The 14,300 horsepower natural gas compression station installed at the interconnection point between the Samalayuca pipeline and the Ciudad Juárez–Chihuahua natural gas pipeline. It is property of the Mexican Center for the Control of Natural Gas.

"GSTC"	General Service Terms and Conditions (*"Términos y Condiciones para la Prestación de Servicios"*) approved by the Commission that forms an integral part of the permits for the storage and transportation of hydrocarbons, petroleum and petrochemicals (as the case may be).
"Guadalajara LPG terminal"	The 80,000 bl (4.4 MMTh) LPG storage facility, located in Jalisco.
"Guaymas–El Oro pipeline"	The second segment of the Sonora pipeline, comprised of approximately 330 km of 30-inch diameter pipeline with a transportation capacity of 510 MMcfd (5.3 MMThd). It goes through the states of Sonora and Sinaloa. It will include an 11,000 horsepower compression station.
"GW"	Gigawatt.
"GWh"	Gigawatt hours.
"Hydrocarbon Law" or "LH"	Hydrocarbon Law, published in the Mexican Official Gazette on August 11, 2014.
"IASB"	International Accounting Standards Board.
"IEnova"	Infraestructura Energética Nova, S.A.B. de C.V., together with its subsidiaries.
"IEnova Marketing"	IEnova Marketing, S. de R.L. de C.V.
"IEnova Pipelines"	Formerly Gasoductos de Chihuahua, S. de R.L. de C.V., in which the Company was partners with Pemex TRI until September 26, 2016.
"IFRS"	International Financial Reporting Standards issued by the IASB.
"IMG"	Infraestructura Marina del Golfo, S. de R.L. de C.V., the joint venture between IEnova, through Ductos e Infraestructura Marina, S. de R.L. de C.V. with participation of 40%, and TransCanada of 60%.
"Income tax"	The Mexican income tax (*impuesto sobre la renta*).
"Indeval"	S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.
"InterGen"	InterGen N.V. and/or its affiliates Energía Azteca X, S.A. de C.V. and/or Energía de Baja California, S. de R.L. de C.V. In 2018, Actis acquired InterGen's Mexican portfolio.
"IPP"	Independent power producer.
"ISL"	Inversiones Sempra Limitada, a subsidiary of Sempra.
"ISLA"	Inversiones Sempra Latin America Ltda, a subsidiary of Sempra.
"Issuer"	Infraestructura Energética Nova, S.A.B de C.V.
"JPM Ventures Energy"	JPM Ventures Energy México, S. de R.L. de C.V., an affiliate of J.P. Morgan.
"Kbpd"	Thousand barrels per day.
"km"	Kilometers.
"Law of Energy Transition"	Law of Energy Transition, published in the Mexican Official Gazette on December 24, 2015.
"Law of Electric Industry"	Law of Electric Industry, published in the Mexican Official Gazette on August 11, 2014.
"Law for the Protection of Personal Data"	The Mexican Federal Law for the Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*), published in the Mexican Official Gazette on July 5, 2010.
"LIBOR"	The London Interbank Offered Rate.
"Liverpool"	El Puerto de Liverpool, S.A.B. de C.V.

"LNG"	Liquefied natural gas.
"LNG terminal"	The LNG terminal with an aggregate storage capacity of 320,000 m^3 (73.3 MMTh) in two tanks, each of 160,000 m^3 (36.6 MMTh), and a send-out capacity of 1,300 MMcfd (13.5 MMThd) or a nominal capacity of 1,000 MMcfd (10.4 MMThd), located in Ensenada, Baja California.
"Los Ramones I pipeline"	The system comprised of a 48-inch diameter pipeline with an approximate length of 116 km, a design capacity of 2,100 MMcfd (21.8 MMThd), and two compression stations with a joint capacity of 123,000 horsepower. It extends from the border between the State of Tamaulipas and the U.S. to the interconnection point with the Los Ramones Norte pipeline in the State of Nuevo León.
"Los Ramones Norte pipeline"	Join Venture with BlackRock, the system is comprised of a 42-inch diameter pipeline with an approximate length of 452 km, a design capacity of 1,420 MMcfd (14.8 MMThd), and two compression stations with a joint capacity of 123,000 horsepower. It extends from the interconnection point with the Los Ramones I pipeline in Ramones, Nuevo León, to the interconnection point with the Los Ramones Sur pipeline in the State of San Luis Potosí.
"LPG"	Liquefied petroleum gas.
"m^3"	Cubic meters.
"Manzanillo Terminal"	Storage terminal of refined petroleum products located in Colima, is currently under construction and has 1,480,000 bl capacity. The project will be developed in a joint venture with Trafigura.
"Marathon"	Marathon Petroleum Corporation and its subsidiaries is a petroleum refining, marketing and transportation company.
"Mexican Constitution"	The Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*).
"Mexican Corporations Law"	Mexican Corporations Law (*Ley General de Sociedades Mercantiles*) published in the Mexican Official Gazette on August 4, 1934.
"Mexican government"	The Mexican federal government.
"Mexican Stock Exchange"	The Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*)
"Mexico"	United Mexican States.
"Midstream"	Transportation, storage and wholesale marketing.
"Ministry of Communications and Transportation" or "SCT"	The Mexican Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*).
"Ministry of Energy" or "SENER"	The Mexican Ministry of Energy (*Secretaría de Energía*).
"Ministry of the Environment" or "SEMARNAT"	The Ministry for the Environment (*Secretaría de Medio Ambiente y Recursos Naturales*).
"Mitsui"	Mitsui & Co., Ltd.
"Mizuho Bank"	Mizuho Bank, Ltd.
"MMcf"	Million cubic feet.
"MMcfd"	Million cubic feet per day.
"MMTh"	Million therms.
"MMThd"	Million therms per day.
"MMtpa"	Million tons per year.
"MUFG"	MUFG Bank, LTD (formerly The Bank of Tokyo Mitsubishi UFJ, LTD)
"MW"	Megawatt.
"MW_{AC}"	Megawatt, alternating current.

"n.s."	Not significant
"Naco compression station"	The 14,340 horsepower natural gas compression station installed at the Mexican Center for the Control of Natural Gas's Naco–Hermosillo pipeline in Naco, Sonora.
"NADB"	The North American Development Bank.
"NAFIN"	Nacional Financiera, S.N.C., Institución de Banca de Desarrollo.
"NAFTA"	The North American Free Trade Agreement.
"National Energy Control Center" or "CENACE"	The Mexican National Center for the Control of Energy (Centro Nacional de Control de Energía, or CENACE), a decentralized agency of the Mexican government that is responsible for the operative control of the national electric system, the wholesale electric market and not unduly discriminatory open access to the national transmission network and to general electricity distribution networks.
"National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency" or "ASEA"	The Mexican National Agency for Industrial Safety and Environmental Protection in the Hydrocarbon Sector (*Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*).
"National Natural Gas Control Center" or "CENAGAS"	The Mexican National Center for the Control of Natural Gas (*Centro Nacional de Control del Gas Natural, or CENAGAS*), a decentralized agency of the Mexican government. It is responsible for managing the Mexican Natural Gas Integrated Transportation and Storage System (*Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural*) and for ensuring the ongoing, safe provision of services through such system, thus contributing to the ongoing supply of natural gas throughout Mexico.
"National Pipeline Network"	All existing pipelines in the national territory, whether public or private.
"National Securities Registry"	Mexican National Securities Registry (*Registro Nacional de Valores*).
"NOM"	Mexican Official Standards (*Normas Oficiales Mexicanas*).
"NORD/LB"	Norddeutsche Landesbank Girozentrale.
"North Baja pipeline"	The approximately 138 km third-party-owned pipeline located in the United States.
"Ojinaga–El Encino pipeline"	The approximately 220 km, 42-inch diameter pipeline with a natural gas transportation capacity of 1,356 MMcfd (14.1 MMThd), located in the State of Chihuahua.
"Other comprehensive income"	The Company's other comprehensive income.
"Pemex"	Petróleos Mexicanos, a Mexican productive state-owned company.
"Pemex TRI"	Pemex Transformación Industrial, a productive state-owned subsidiary.
"pesos" or "Ps."	The Mexican peso, the official currency of Mexico.
"Pima Solar"	Photovoltaic solar power plant located in Caborca, Sonora that has a capacity of 110 MW_{AC}.
"PLOG" or "Pemex Logística"	Pemex Logística, a productive state-owned subsidiary of Pemex, dedicated to the transport and storage of hydrocarbons, petroleum and petrochemicals by pipeline, maritime and terrestrial, for Pemex and for third parties.
"PRODESEN"	National electric system development program.
"POC"	Peruvian Opportunity Company S.A.C., a subsidiary of Sempra.
"Puebla Terminal"	Refined petroleum product storage terminal located in Puebla that is currently under construction. The project will have a capacity of 650,000 bl.
"PUHCA"	The U.S. Public Utility Holding Company Act of 2005.
"Report"	This annual report, for the year ended December 31, 2018.

"Rosarito pipeline system"	The natural gas transportation system is comprised of three segments of approximately 302 km in aggregate length, which include the 30-inch diameter Rosarito Mainline with a capacity of approximately 534 MMcfd (5.6 MMThd), the 42-inch diameter LNG Spur with a capacity of approximately 2,600 MMcfd (27.0 MMThd), and the 12-inch diameter Yuma Lateral with a capacity of 190 MMcfd (2.0 MMThd). Located in Baja California, it also includes two 32,500 horsepower compression stations.
"Rules for External Auditors"	The General Rules for entities and Securities Issuers supervised by the Banking and Securities Commission (*Disposiciones de Carácter General Aplicables a las Entidades y Emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de audiotria externa de estados financieros básicos*) published in the Mexican Official Gazette on April 26, 2018, as amended as of the date hereof.
"Rules for Hydrocarbon Law" or "LH"	Rules for Hydrocarbon Law, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Law of Electric Industry"	Rules for Law of Electric Industry, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Title III of LH"	Rules for activities related to Title III of Hydrocarbon Law, published in the Mexican Official Gazette on October 31, 2014.
"Rules for Natural Gas" or "Natural Gas Regulation"	Rules for Natural Gas, published in the Mexican Official Gazette on November 8, 1995 and revoked by the Rules for Title II of LH, except as expressly stated in the transitory provisions of the latter.
"Rules for Securities Issuers"	The General Rules for Securities Issuers and for Other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores*) published in the Mexican Official Gazette on March 19, 2003, as amended as of the date hereof.
"Rumorosa Solar"	Solar energy project currently under construction. The project will have a capacity of approximately 41 MW_{AC} and is located in Baja California.
"Saavi Energía"	Private producer of electricity in the energy segment and subsidiary of Actis.
"Samalayuca pipeline"	The natural gas transportation system comprised of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMThd). It extends from Ejido San Isidro, Chihuahua, to the Mexican Federal Electricity Commission's Samalayuca power plant and interconnects with a separate 16-inch diameter pipeline that is wholly owned by Pemex TRI, which runs from Ciudad Juárez to Chihuahua.
"San Fernando pipeline"	The natural gas transportation system comprised of approximately 114 km of 36-inch diameter pipeline. It has a capacity of 1,460 MMcfd (15.2 MMThd) and two compression stations with an aggregate of 95,670 horsepower. The pipeline runs from El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas.
"San Isidro–Samalayuca pipeline"	The system comprised of an approximately 23 km pipeline with a transportation capacity of 1,135 MMcfd (11.8 MMThd) and a 46,000 horsepower compression station. The pipeline is located in Chihuahua.
"Sásabe–Puerto Libertad–Guaymas pipeline"	The first segment of the Sonora pipeline, comprised of approximately 505 km of 36-inch diameter pipeline with a natural gas transportation capacity of 770 MMcfd (8.0 MMThd). The pipeline includes two sections in Sonora: the 220 km Sásabe–Puerto Libertad section and the 285 km Puerto Libertad–Guaymas section.
"Scotiabank"	Scotiabank Inverlat, S.A. Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat.
"SDG&E"	San Diego Gas & Electric Company, an affiliate of Sempra Energy.

"Securities Market Law"	Mexican Securities Market Law (*Ley del Mercado de Valores*), published in the Mexican Official Gazette on December 30, 2005.
"SEH"	Sempra Energy Holdings XI B.V., a subsidiary of Sempra.
"Senior Notes" or "International Senior Notes"	In December 2017, the Company successfully completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% Senior Notes due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048. The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.
"Sempra Energy"	Sempra Energy, a California corporation and the Company's indirect parent.
"Sempra Generation"	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
"Sempra International"	Sempra Generation, a California corporation and an affiliate of Sempra Energy.
"Sempra Natural Gas"	Sempra LNG International LLC, an operating division of Sempra Energy.
"Sempra Services Company"	Sempra Services Company, S. de R.L. de C.V.
"SGPM"	Sempra Gas & Power Marketing, LLC.
"Shell"	Shell México Gas Natural, S. de R.L. de C.V.
"SISTRANGAS" or "SNG"	Integrated national natural gas transportation and storage system.
"SMBC"	Sumitomo Mitsui Banking Corporation.
"SNR"	National Refining System (*Sistema Nacional de Refinación)*
"SoCalGas"	Southern California Gas Company, an affiliate of Sempra Energy.
"Sonora pipeline"	The natural gas transportation system with an aggregate length of approximately 835 km, with a capacity of 770 MMcfd (8.0 MMThd) for the first segment and 510 MMcfd (5.3 MMThd) for the second segment. The system is located in the states of Sonora and Sinaloa. The first segment is the Sásabe – Puerto Libertad – Guaymas pipeline and the second segment is the Guaymas – El Oro pipeline; both segments are interconnected.
"South Texas – Tuxpan pipeline"	The natural gas transportation system, in development through a joint venture with TransCanada, with a length of approximately 800 km, a capacity of 2,600 MMcfd (27 MMThd) and a compression station. In the joint venture, participation is IEnova 40% and TransCanada 60%.
"Standby letter of credit facility agreement"	The Company announced the execution of a standby letter of credit facility and reimbursement agreement, up to an amount equivalent to USD$1.0 billion, in order to make more efficient and standardize the process for issuing standby letters of credit requested by governmental entities or third parties. The bank syndicate is formed by Banco Nacional de Mexico, SMBC, BBVA Bancomer, Scotiabank Inverlat, Mizuho, BNP Paribas and Santander. This agreement has a term of five years. The standby letter of credit facility agreement and the standby letters of credit issued under the same do not constitute the Company's debt.
"TAG Norte Holding" and/or "TAG Pipelines Norte"	TAG Norte Holding, S. de R.L. de C.V., together with its subsidiary TAG Pipelines Norte, S. de R.L. de C.V., formed a joint venture between DEN, and BlackRock subsidiaries.
"TAG Pipelines"	TAG Pipelines Norte, S. de R.L. de C.V., is a subsidiary of Pemex.
"TDF LPG pipeline"	The approximately 190 km, 12-inch diameter pipeline with an average daily transportation capacity of 34,000 bpd (1.9 MMThd) of LPG, extending from the production area of Pemex TRI's Burgos LPG facility in the State of Tamaulipas to the delivery system located in the outskirts of Monterrey, Nuevo León.

"Tecnológico de Monterrey"	Instituto Tecnológico y de Estudios Superiores de Monterrey.
"Tepezalá Solar"	Solar energy project, currently under construction. The project will have a capacity of approximately 100 MW_{AC}, is located in Aguascalientes and will be developed in a joint venture with Trina Solar, whose minority participation will be 10%.
"Termoeléctrica de Mexicali" or "TDM"	Termoeléctrica de Mexicali, S. de R.L. de C.V., or the combined cycle power plant operated by it, as the context may require, with a 625 MW capacity that is located in Baja California.
"TETL"	TETL JV Mexico Norte, S. de R.L. de C.V., a subsidiary of BlackRock.
"TGN pipeline"	The natural gas transportation system comprised of approximately 45 km of 30-inch diameter pipeline with a capacity of 940 MMcfd (9.8 MMThd) and an 8,000 horsepower compression station, located in Baja California.
"The Bank of Nova Scotia"	The Bank of Nova Scotia.
"TIIE"	The Mexican Interbank Balanced Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*).
"TJFA"	Federal Court of Tax and Administrative Justice *(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA)*
"Tokyo Gas"	Tokyo Gas Co., Ltd
"Topolobampo Terminal"	Refined petroleum product storage terminal located in Sinaloa. It is currently under construction and the project will have a capacity of 1,000,000 bl.
"Total"	Total S.A.
"Trafigura"	Trafigura México, S.A. de C.V., company dedicated to the logistics and trade of raw materials with which the Company maintains a joint venture.
"Trina Solar"	Trina Solar Limited.
"UDI" or "UDIS"	The unit of account whose value in pesos is published periodically by Banco de Mexico.
"United States" or "U.S."	United States of America.
"Upstream"	Exploration and production activities.
"USMCA"	United States-Mexico-Canada Agreement.
"Valle de México Terminal"	Storage terminal of refined petroleum products located in Valle de México, is currently under construction. The project will have a capacity of 650,000 bl.
"Valero"	Valero Energy Corporation.
"VAT"	The Mexican value added tax (*Impuesto al Valor Agregado*).
"Veracruz Terminal"	Refined petroleum product storage terminal located in Veracruz. It is currently under construction, and the project will have a capacity of 2,100,000 bl.
"Ventika"	Ventika includes two adjacent wind powered generation facilities, of 126 MW each, Ventika I and Ventika II, with a total capacity of 252 MW and a total of 84 turbines of 3 MW each. It is located in the state of Nuevo Leon, Ventika I and Ventika II operate as a single wind powered generation facility.
"Ventika I"	Ventika, S.A.P.I. de C.V.
"Ventika II"	Ventika II, S.A.P.I. de C.V.

EXECUTIVE SUMMARY

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

The Company

The Company is the first private-sector publicly traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its activities in Mexico include several business lines that encompass a significant portion of the Mexican energy infrastructure value chain that is open to private investment.

The Company's assets are divided in two business segments: (1) gas segment, which includes natural gas, LNG and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, distribution of natural gas and refined products storage, the latter currently under construction; and (2) power segment, which includes a natural-gas-fired, combined-cycle power generation facility, wind power generation facilities and solar power generation facilities, some of which are currently in development or under construction. The Company's assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant (TDM). As a result, early 2016, the results of the Termoeléctrica de Mexicali power plant were reclassified and included in our consolidated financial statements under discontinued operations, net of income tax. In June 2018, the Board of Directors determined to end such sale process. Accordingly, the financial results for the Termoeléctrica de Mexicali power plant were again reclassified and are currently presented as continuing operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and included in the consolidated financial statements of the Company as continuing operations. In order to provide a meaningful comparison, for purposes of this Report, the Company re-presented its historical consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, to reflect the financial results of TDM under continuing operations. See note 12 of the audited financial statements.

As a result of changes to Mexican gas regulation in 1995, the Company was one of the first private companies to enter the energy infrastructure business in Mexico in the mid-1990's. Specifically, these reforms allowed private participation in gas pipelines, distribution and storage. During the last 22 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through new projects development, organic growth, acquisitions and by diversifying its customer base), investing approximately USD$8.2 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

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

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

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

- The Company was partners with state-controlled Pemex TRI in IEnova Pipelines, formerly Gasoductos de Chihuahua, the first natural gas infrastructure joint venture in Mexico between Pemex and private companies, and on September 27, 2016, the company increased its indirect equity interest in IEnova Pipelines from 50%

to 100% when the Company acquired the remaining 50% interest from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million;

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

- The Company is building, through a joint venture with TransCanada, the South of Texas-Tuxpan marine pipeline, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in June 2016. It is expected to commence commercial operations in the second quarter of 2019 with an investment of approximately USD$992 million;

- The Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. Pima Solar started operations during the first quarter, it has a capacity of 110 MW_{AC} and an investment of approximately USD$115 million;

- The Company was awarded a concession by the Integral Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the new port of Veracruz, which will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 2.1 million barrels, and it is expected to commence commercial operations between the fourth quarter 2019 and first quarter of 2020;

- The Company executed a long-term, dollar-denominated firm storage capacity contract with a subsidiary of Valero for the full capacity of the new marine terminal in Veracruz and two in-land terminals in Puebla and the Valle de Mexico area. The estimated investment is USD$440 million for the marine terminal and the two in-land terminals. The Company expects that the two in-land terminals will commence commercial operations between the fourth quarter 2019 and first quarter of 2020;

- The Company was awarded the public tender issued by Integral Port Administration of Topolobampo in Sinaloa. The first phase of the terminal will have a capacity of approximately one million barrels and an estimated investment of USD$150 million. The terminal could also be expanded to store additional refined products and/or offer service for other products such as petrochemicals. It is expected to begin operations during the fourth quarter of 2020. In September and October 2018, IEnova announced the execution of two long-term, U.S. dollar denominated contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50% of the terminal's initial one million barrels of storage capacity;

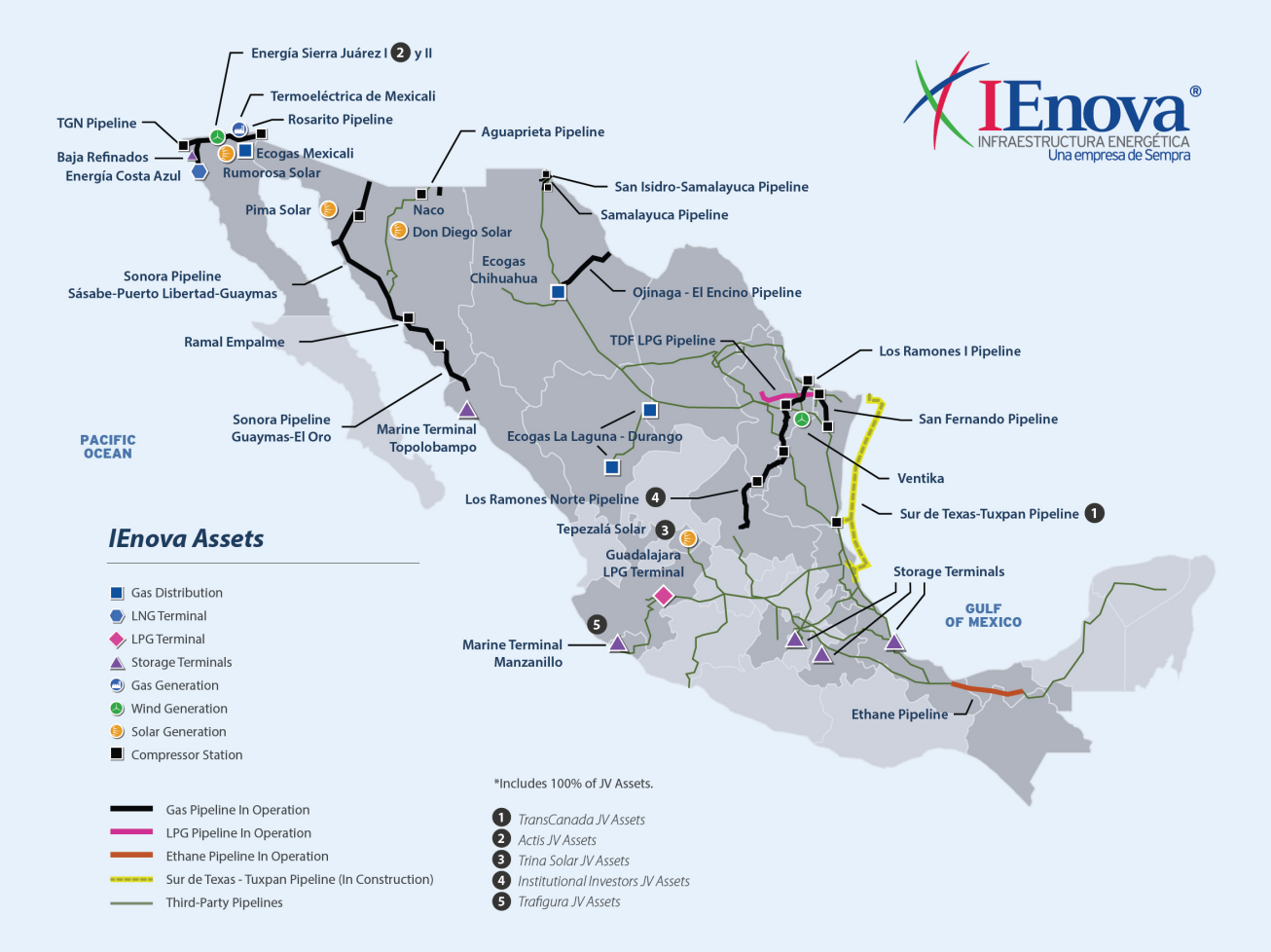
- The Company executed two long-term contracts related to the Baja Refinados marine terminal, one with Chevron and the other with BP, for the storage and delivery of hydrocarbons, mainly gasoline and diesel. Together, these two contracts represent 100% of the total initial terminal storage capacity of one million barrels. An investment of approximately USD$130 million. The terminal is expected to begin commercial operations in the fourth quarter of 2020;

- The Company announced the execution of a long-term, U.S. dollar-denominated terminal services agreement with a subsidiary of Trafigura for 740,000 barrels of storage capacity in a marine facility for the receipt, storage and delivery of refined products in Manzanillo, Colima. As part of the agreements, IEnova also acquired 51% of the equity of the company whose subsidiary owns certain permits and land where, subject to the issuance of the remaining permits and other conditions, the project will be built. The project's estimated investment is USD$200 million dollars, and the company anticipates, subject to the timing of issuance of the remaining permits, the start of commercial operations in the fourth quarter of 2020;

- The Company announced the execution of an electricity supply contract with Liverpool. The electricity will be generated by Don Diego Solar. The project will have a capacity of 125MW_{AC} with an investment of approximately USD$130 million; and

- The Company announced the execution of an electricity sale and purchase agreement with Scotiabank and Autlán. The electricity will be generated by IEnova's portfolio of solar projects.

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



Gas Segment

Pipelines and Storage Business

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

    - More than 2,900 km of natural gas pipelines (including approximately 800 km under construction as of December 2018) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd);

    - Twelve natural gas compression stations in operation and three currently under construction, with an aggregate of over 588,810 horsepower;

    - 190 km of LPG pipelines with a design capacity of 34,000 bpd (1.9 MMThd);

    - 224 km of ethane pipelines with a transportation capacity of up to 52 MMcfd (0.6 MMThd) in the first segment (as ethane gas); approximately 152 MMcfd (1.8 MMThd) in the second segment (as ethane gas), and approximately 106,000 bpd (3.1 MMThd) in the third segment (as ethane liquid); and

    - An LPG storage facility with a total capacity of 80,000 bpd (4.4 MMTh), near Guadalajara, in the state of Jalisco.

- The Company's current pipeline assets include the Rosarito pipeline system, the TGN pipeline, the Aguaprieta pipeline, the Naco compression station, the Sonora pipeline, the Ojinaga–El Encino pipeline, the San Isidro – Samalayuca pipeline, the Empalme Lateral pipeline, the San Fernando pipeline, Samalayuca pipeline, Los Ramones I pipeline, TDF LPG pipeline, Gloria a Dios compression station, Guadalajara LPG terminal, Ethane pipeline and through joint ventures, Los Ramones Norte pipeline and the South of Texas – Tuxpan pipeline (the Company expects to commence commercial operations in the second quarter of 2019).

Liquefied Natural Gas Business

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

Refined Products Storage Business

The refined products storage business develops systems for the receipt and storage of petroleum products and other liquids, mainly gasoline, diesel and jet fuel in the states of Baja California, Colima, Puebla, Sinaloa, Veracruz and Valle de Mexico. Currently, the Company has four marine and two in-land terminals in the process of development or construction, with a storage capacity of 6.9 million barrels, and with the possibility of expansion.

Natural Gas Distribution Business

The Company owns and operates the ECOGAS natural gas distribution utility, which covers three distribution areas: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,950 km in length, this system currently serves over 122,000 industrial, commercial and residential customers.

For the years ended December 31, 2018, 2017 and 2016, the gas segment had revenues of approximately USD $1,059 million, USD$992 million and USD$651 million, respectively, which accounted for 77%, 81% and 85% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$716 million, USD$663 million and USD$481 million, respectively, which accounted for 82%, 87% and 95% of the total adjusted EBITDA for the periods ended December 31, 2018, 2017 and 2016. This revenue figure does not include net equity in earnings from the Company's joint ventures, which are accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint ventures in the gas segment adjusted EBITDA.

Power Segment

Natural Gas Fired Power Generation Business

The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with the Rosarito pipeline system, which allows it to receive regasified LNG from the LNG terminal as well as gas supplied from the United States through the North Baja pipeline system. This facility is a modern, efficient combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California, and in June 2017, this facility received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*) that is valid for two years. The plant is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator (CAISO) at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California.

Wind Powered Generation Business

The Company has four wind power generation facilities located in Baja California and Nuevo Leon, these wind parks facilities have the following characteristics:

- Energía Sierra Juárez is a joint venture with Actis, in which the Company holds a 50% interest. The initial phase of this project consists of 47 wind turbines with a total capacity of 155 MW. The full amount of electricity from the initial phase is purchased by the U.S. affiliate San Diego Gas & Electric Company under a 20-year power purchase agreement. In November 2017, the Company executed another 20-year power purchase agreement with San Diego Gas & Electric Company for a new wind power generation facility that will be located near the initial phase of Energía Sierra Juárez. The second phase of this project will have a 108 MW capacity and will require an investment of approximately USD$150 million.

- Ventika includes two adjacent wind parks located in Nuevo Leon with a capacity of 152 MW through 84 wind turbines. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreements.

Solar Powered Generation Business

The Company has three solar parks under construction and one in operations in Aguascalientes, Baja California and Sonora. These parks have the following characteristics:

- Rumorosa Solar, with a capacity of approximately 41 MW_{AC}. Commercial operation is expected during the second quarter of 2019, with an investment of approximately USD$50 million.

- Tepezalá Solar, with a capacity of approximately 100 MW_{AC}. The project is under construction in association with Trina Solar, who will maintain a 10% minority participation. Commercial operation is expected during the second quarter of 2019, with an investment of approximately USD$100 million.

- Don Diego Solar with a capacity of approximately 125 $MW_{AC.}$ Commercial operation is expected during the fourth quarter of 2019, with an investment of approximately USD$130 million.

- Pima Solar with a capacity of 110 $MW_{AC,}$ initiated commercial operation in the first quarter of 2019, with an investment of approximately USD$115 million.

For the years ended December 31, 2018, 2017 and 2016, the power segment had revenues of approximately USD $308 million, USD$229 million and USD$114 million, respectively, which accounted for 23%, 19% and 15% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$161 million, USD$104 million and USD$23 million, respectively, which accounted for 18%, 14% and 5% of the total adjusted EBITDA for the period ended December 31, 2018, 2017 and 2016. This revenue figure does not include net equity in earnings from the joint venture, which is accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint venture in the power segment adjusted EBITDA.

Strengths

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

- ***Cash flow stability and visibility through long-term contracts***. The Company has contracted a substantial portion of the capacity of its assets across its business segments through long-term agreements, substantially U.S. Dollar-denominated or U.S. Dollar- indexed in accordance with the functional currency of the investment. Customers pay a capacity reserve charge which guarantees the investment and the firm service level, as well as a charge to compensate for the variable cost. This helps the Company to provide competitive prices to its customers and helps the Company to maintain steady and predictable long-term cash flows, in order to pay fixed costs such as salaries and costs associated with the investment. The counterparties are private and public companies that include the Mexican Federal Electricity Commission and Pemex. In addition to enhancing the stability of the Company's cash flows, these firm capacity agreements also minimize its direct exposure to commodity price risk. The average life of these contracts, weighted in proportion to revenues, is approximately 19 years. The fee structure of the Company's long-term contracts minimizes its market risk because the rates, some of which are regulated by the Mexican Energy

Regulatory Commission, are adjusted regularly to account for inflation or fluctuations in exchange rates.

- ***Proven development capability and extensive experience operating diverse energy assets***. With over 22 years of experience in Mexico, the Company has developed the necessary skills and relationships to successfully build, own and operate critical energy infrastructure in Mexico. Over this time, the Company has established a proven track record of building greenfield and brownfield projects and the flexibility to acquire energy assets in existing and new lines of business. The Company made its first investment in Mexico in 1996, when it won the first private natural gas distribution permit awarded in Mexico, and subsequently developed the ECOGAS business into a model natural gas distribution company. The Company believes that its experience in the energy sector positions it to take advantage of possible investment opportunities with developers looking for sales or spin-offs, in projects nearing completion, in companies seeking strategic partners, and in companies under financial distress and seeking liquidity through the sale of assets.

- ***Financing capacity to pursue new opportunities in the energy sector.*** In February 2019, the Company executed an amendment to its revolving credit agreement with a syndicate of ten banks with SMBC as administrative agent. This new revolving credit agreement allows the Company to borrow up to USD$1,500 million through February 2024. As of December 31, 2018, the available funds under the Revolving Credit Facility were USD$362 million. In addition, the Company has demonstrated its ability to successfully access the capital markets, having raised approximately USD$408 million in public debt markets in February 2013, and USD$599 million in public equity markets in March 2013, USD$1,603 million in the equity follow-on in October 2016 and USD$840 million of the international Senior Notes private offering in December 2017. Intercompany loans from subsidiaries of Sempra, which are affiliates of the Company, have been and are expected to continue being an additional source of financing. As of December 31, 2018, the Company's total shareholders' equity was USD$4,753 billion.

- ***Demonstrated ability to execute wide-ranging growth strategy.*** The Company has managed to consistently grow its business by implementing a diversified growth strategy through new businesses, expanding its customer base and positioning itself as a key player in the fast-growing Mexican energy sector. The Company has quickly expanded its investment in the refined product storage and renewable energy businesses, in which it has a portfolio of six refined products storage under construction, as well as its portfolio of renewable energy currently in development, including expanding the Energía Sierra Juárez project to add 108 MW of additional capacity. The Company is confident it will successfully continue developing energy infrastructure in Mexico.

- ***Diversification of energy assets covering wide market opportunity set***. The Company's assets are diversified across a significant part of the energy infrastructure value chain that is open to private investment in Mexico, including pipelines, LNG, natural gas distribution, refined products and power generation. Given the Company's scale, geographic position and diverse asset base, the Company believes it is well positioned to continue to expand and build out its platform of energy infrastructure assets. Due to the Company's track record as a pioneer in private energy infrastructure investment in Mexico and its relationships with key players in the industry, it is well-positioned to expand into new areas of energy as opportunities for private investment arise. In addition, as many of its energy infrastructure assets are located across northern Mexico, the Company is strategically positioned to be a key player in the growing demand for the import and transportation of hydrocarbons across the Mexico-U.S. border.

- ***Strong history of compliance and positive relationships with Mexican regulatory bodies and government-controlled businesses***. Over the past 20 years, the Company has worked closely with the Mexican Energy Regulatory Commission and other Mexican energy regulatory bodies, and it has developed a deep understanding of the regulatory process for the Mexican energy sector. The Company believes its cooperation and close coordination with the relevant regulatory bodies in Mexico are key strengths of its business, and it intends to continue to nurture and build upon these positive relationships. Moreover, these relationships have been built on the expertise the Company has developed while operating in Mexico. The Company also has long-term contractual relationships with government-controlled energy companies and entities, such as The National Natural Gas Control Center (*Centro Nacional de Control del Gas Natural*), or CENAGAS, Pemex and the Mexican Federal Electricity Commission, as well as permits and authorizations to develop and operate its energy assets in Mexico.

- ***Experienced management team***. The Company's management team has extensive experience in the energy infrastructure sector. The members of the Company's senior management team have an average of over 20 years of experience operating and developing assets in the Mexican energy sector. The Company has the knowledge and skills necessary to successfully and safely manage all of its assets and operations and the development expertise necessary to expand its existing footprint and enter into new areas of energy as opportunities arise. The Company further believes its management team is one of its principal competitive strengths relative to its industry peers.

- ***World-class parent company***. The Company also benefits from the strong support of its indirect controlling shareholder, Sempra Energy, which has a long history of building diversified energy services companies on a global scale. Based in San Diego, California, Sempra Energy is a Fortune 500 company that provides energy services and had revenues of approximately USD$11 billion in 2018. The Sempra Energy companies employ more than 20,000 people and provide energy-related products and services to more than 40 million consumers worldwide. Through its relationship with Sempra Energy, the Company expects to continue to have access to a significant pool of strong commercial relationships throughout the energy industry and broad operational, commercial, technical, risk management and administrative infrastructure and support. The Company believes this access should, among other things, continue to maximize the operational and financial performance of its assets and enhance the efficiency of its current operations as well as its growth and expansion projects.

Summary Financial Information

(in thousands of U.S. Dollars)	Year ended December 31,		
	2018	**2017**	**2016**
Revenues	1,368,555	1,222,905	767,089
Depreciation and amortization	(137,157)	(119,020)	(66,606)
Profit for the period	430,586	354,174	754,990

(in thousands of U.S. Dollars)	Year ended December 31,		
	2018	**2017**	**2016**
Finance lease receivable, short-term	9,809	8,126	7,155
Finance lease receivable, long-term	932,375	942,184	950,311
Property, plant and equipment, net	4,086,914	3,729,456	3,614,085
Intangible	190,772	190,199	154,144
Goodwill	1,638,091	1,638,091	1,638,091
Total assets	8,768,597	8,163,859	7,126,948
Current liabilities	1,445,631	1,053,917	971,674
Total non-current liabilities	2,569,216	2,593,355	1,804,963
Total liabilities	4,014,847	3,647,272	2,776,637
Total stockholders' equity	4,753,750	4,516,587	4,350,311

Ratios	Year ended December 31,		
	2018	**2017**	**2016**
Current assets / current liabilities	0.3 times	0.5 times	0.5 times
Total liabilities / total assets	0.46%	45%	0.39%
Total liabilities / stockholders' equity	0.84%	81%	0.64%
Days of sales in accounts receivable	47 days	29 days	32 days*

* Proforma

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

IEnova * Date	Closing Price	Average Volume
2014	73.80	1,034,837
2015	72.34	1,139,929
2016	90.33	2,659,053
2017	96.45	1,946,066
2018	73.27	1,826,468
29-Mar-2018	78.01	1,914,842

*Source: IEnova, based on Bloomberg data. Price per share in pesos

RISK FACTORS

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

Risks Relating to Mexico

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

All of the Company's operations are conducted in Mexico and the Company's potential for growth is centered in Mexico; the Company's business is therefore significantly dependent upon the performance of the Mexican economy. Mexico has experienced economic crises in the past, caused by internal and external factors, characterized by, among other things, exchange rate instability (including large devaluations), high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. As a result, such conditions, as well as the general condition of the Mexican economy, over which the Company has no control, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

After being significantly impacted by the global economic crisis that began in 2008, Mexico's gross domestic product, or GDP, fell 6.1% in 2009, the sharpest decline since 1932, according to the World Bank. Mexico's GDP grew by 2.0%, 2.0% and 2.3%, respectively, in 2018, 2017 and 2016. However, if the Mexican economy experiences another recession, if inflation or interest rates increase significantly, if Mexico's sovereign debt credit rating is downgraded or if the Mexican economy is otherwise adversely impacted, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Federal Electricity Commission has publicly announced that could initiate a review process for the contracts the Company currently has for the operation of pipelines in Mexico. The Company cannot anticipate if CFE will formally initiate a contract review or in such case, the result of such review.

Changes in Mexican federal governmental policies could have a material adverse effect on our business, financial condition, results of operations, cash flows, prospects and/or our ability to repay the Notes.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant

effect on Mexican private-sector entities in general, and in particular on the Company, as well as on market conditions, prices and returns on Mexican securities, including our securities.

The last Congressional elections were held in Mexico in July 2018, and they resulted in an absolute majority for the party of the current president's party. Since 1997, no presidents has had an absolute majority in Congress. This had permitted the legislative power to become an organ of control and autonomous from the Federal Executive Power.

In this regard, the federal government, with the majority it currently has, could introduce important laws, policies, and rules, or it could reduce or eliminate the independence of regulatory bodies in the energy and/or financial sectors which could affect the economic situation and politics in the country. The Company cannot predict if the new administration will implement substantial changes in the Mexican law, policies and rules, which could have an adverse effect on the business of the Company, its activities, its financial situation and its operations.

The Federal Electricity Commission has publicly announced that could initiate a review process for the contracts the Company currently has for the operation of pipelines in Mexico. The Company cannot anticipate if CFE will formally initiate a contract review or in such case, the result of such review.

New and unanticipated tax reforms may be approved.

Mexican tax legislation is frequently amended, and therefore there is no guarantee that the current legal framework will not be amended in a way that might adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

On December 31, 2018 the Mexican Governmental Federal Official Gazette published a fiscal stimulus package for the Northern Border Region with effective date on January 1st, 2019 and validity up to 2020.

Such Decree enacted fiscal stimulus in terms of the Corporate Income Tax and the Value Added Tax for those entities with fiscal address and offices in the Northern Border Region.

Mainly the Decree consists of the following:

1. A fiscal credit for the equivalent of one-third of the year's Corporate Income Tax or the provisional payments related to the income obtained in the region, except those related to intangible goods and digital trade.

2. A 50% reduction of the Value Added Tax for goods transferred, services offered and temporal use of delivered goods or services used in the region, except those related to the real estate business, intangible goods or the supply of digital content.

The Company may be materially adversely affected by economic and political developments in the United States.

Economic conditions in Mexico are strongly correlated with economic conditions in the United States due to the generally high degree of economic activity between the two countries, including the trading facilitated by the United States-Mexico-Canada Agreement, or USMCA, as well as physical proximity. In addition, political developments in the United States, including changes in the administration and governmental policies, can also have an impact on the exchange rate between the U.S. Dollar and the Mexican peso, economic conditions in Mexico and the global capital markets. Exports of many energy-related products from Mexico to the United States have enjoyed a zero-tariff rate under USMCA.

The new deal for USMCA, before known as NAFTA, was signed a new deal in November 2018, but it still needs to be ratified by all three governments during 2019.

The introduction of class action lawsuits into the Mexican legal system could have an adverse effect on the Company's operations.

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

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

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

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

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

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

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

Over the past few years Mexico has experienced a significant increase in violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border, and most of the Company's facilities are located in this region. This increase in violence has had an adverse impact on the economic activity in Mexico. Also, social instability in Mexico and adverse social or political developments in or affecting Mexico could have a material adverse effect on the Company's business, financial conditions, results of operations, cash flows, prospects, and/or the market price of its securities. In addition, violent crime may increase Company's insurance and security costs. The

Company cannot assure that the levels of violent crime in Mexico, over which the Company have no control, will not increase or will decrease. An increase in violent crime could have a material adverse effect on our business, financial condition, and results of operations, cash flows, prospects and/or our ability to repay its securities.

Events and the perception of risk in other countries, especially the United States, China and other emerging market countries, may materially adversely affect the market price of Mexican securities, including those issued by the Company.

The market price of securities issued by Mexican companies is affected to varying degrees by economic and market conditions in other countries, including the United States, China and other Latin American and emerging market countries. Therefore, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Mexican issuers. Crises in the United States or other emerging market countries may reduce investor interest in securities issued by Mexican companies, including those issued by the Company.

In the past, the development of adverse economic conditions in other emerging market countries resulted, in general, in capital flight, and as a consequence, in a decrease in the value of foreign investments in Mexico. The financial crisis that originated in the United States during the third trimester of 2008 triggered a recession of global scale. This adversely affected the Mexican economy and Mexican capital markets, both directly and indirectly, and led to, among other things, fluctuations in the trading prices of securities issued by publicly-owned companies, scarcity of credit, cuts in expenditures, slowdown in the global economy, exchange rate volatility, and inflationary pressures. Recent turmoil in other large economies, such as those in Europe and China, could also have such effect. Any of these factors, if they were to occur again, could negatively affect the market value of the Company's securities and make it more difficult for it to access capital markets and finance its operations in the future on acceptable terms, or at all, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

The Mexican Federal Anticorruption Law in Public Contracting (*Ley Federal Anticorrupción en Contrataciones Públicas*), the U.S. Foreign Corrupt Practices Act, or FCPA, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business or any business advantage. Many of the Company's operations require it to use third parties to conduct business or to interact with people who are deemed to be governmental officials under the FCPA. Thus, the Company faces the risk of receipt of unauthorized payments, offers of payments or other things of value by the Company's employees, contractors or agents. It is the Company's policy to implement compliance procedures to prohibit these practices. However, there can be no assurance that the Company's internal control policies and procedures will protect it from unlawful acts committed by its employees, contractors, associated persons or agents, regardless of whether such conduct occurs within or outside the United States. Violations of these laws, or allegations of such violations, could damage the Company's reputation, be expensive to defend, disrupt the Company's business and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Risks Relating to The Company's Business and Industry

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

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

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

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

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

The Company's business is subject to comprehensive federal, state and local environmental, health and safety legislation, as well as supervision by Mexican governmental agencies that are responsible for the implementation of such laws, regulations, official standards and related policies. These laws, regulations and official standards mandate, among other requirements, that the Company obtain and maintain environmental, health and safety licenses for construction and operation of all facilities, including the facilities related to the transportation, storage and distribution of natural gas, LPG, ethane and refined products, and the generation of electric energy. These laws, regulations and official standards may also require the Company to obtain and maintain the following with respect to the construction and operation of its facilities: environmental impact authorizations; risk studies; accident prevention program authorizations; forestry land use change authorizations; air emissions or comprehensive environmental licenses; local land use permits and construction licenses; management waste disposal permits and authorizations for the generation, transportation and disposal of waste including hazardous, special management and urban solid wastes; concession titles

or permits for the use and exploitation of water and the discharge of wastewaters; and concession titles for the use and occupation of federal zones, construction of maritime infrastructure or installation of new equipment required for its operations. See "Business Description - Legal, Administrative and Arbitration Proceedings." The failure to obtain and maintain these authorizations, licenses, permits and concessions could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

Mexico is also a party to many international agreements regarding environmental protection. The Company anticipates that the regulation of its business operations under Mexican federal, state and local environmental laws and regulations will increase and become more stringent over time, including as a result of international agreements. Such international agreements, upon ratification by the Mexican Senate, become a part of Mexican law. Under the North American Agreement on Environmental Cooperation, or NAAEC, a side agreement to USMCA, each country that is a party to USMCA, including Mexico, must ensure that its environmental laws and regulations are duly enforced. While the NAAEC does not empower any of the environmental agencies of the three USMCA partners to enforce the environmental laws of another party, if a USMCA partner fails to enforce its domestic environmental laws, it may be subject to the dispute mechanism created within the NAAEC, which may lead to monetary penalties, and in some cases, to the suspension of USMCA benefits, the result of which could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While it is difficult to predict the scope and effect of new environmental laws and regulations, such changes could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. In the framework of the negotiations and singing of the USMCA, in November 2018, the NAAEC was signed, which substitutes the Cooperation Agreement of North America in force since 1994. Currently the USMCA is under ratification process, and any change or modification that could be raised during the ratification period could affect directly the NAAEC or the USMCA, with possible environmental repercussions and therefor in the energy sector.

The Mexican Federal Environmental Liability Law (*Ley Federal de Responsabilidad Ambiental)*, which became effective in July 2013, provides for significant penalties for damages to the environment and could subject it to significant liability in the event of any such damage. However, the Company cannot predict the outcome of any action brought against it or the extent to which it could be held liable under such law. See "Legal Framework and Fiscal Situation". The cost of remediating or providing compensation for any environmental damage could be significant and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

Mexico has developed a legal framework for the regulation of the hydrocarbon and electric power sectors based on a package of constitutional amendments approved by the Mexican Congress in December 2013 and implementing legislation enacted in 2014, including the amendment of certain existing laws in August 2014 and the issuance of new regulations thereunder in October 2014. The legal framework for the Company's pipelines, natural gas distribution and refined products businesses is set forth in the Mexican Hydrocarbon Law (*Ley de Hidrocarburos*), the Mexican Hydrocarbon General Regulations (*Reglamento de la Ley de Hidrocarburos*) and the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbon Law (*Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos*). The power generation business is subject to regulation under the Mexican Electricity Industry Law (*Ley de la Industria Eléctrica*) and the Regulations Under the Law for the Electricity Industry (*Reglamento de la Ley de la Industria Eléctrica*), except for "grandfathered" projects, which remain governed by the Mexican Public Electricity Service Law (*Ley del Servicio Público de Energía Eléctrica*) and the regulations issued thereunder to the extent they do not conflict with the legal framework. However, given the recent creation of this legal framework, it is uncertain how it would be interpreted in practice. The Company also cannot predict the way in which the legal framework would affect any new business opportunities the Company may wish to pursue. See "Regulatory, Permits and Environmental Matters."

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

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

The Company cannot predict the impact that legal, regulatory and social responses to climate change may have on its business.

A number of legal and regulatory measures as well as social initiatives have been introduced both internationally and in Mexico in an effort to reduce greenhouse gases and other carbon emissions. The Mexican Electricity Industry Law and its regulations impose an internal system aimed at encouraging the use of electricity generated through clean energy sources while introducing negotiable clean energy certificates as well as other measures aimed at achieving greenhouse gas reductions, which could result in additional costs in the Power Segment, and in turn could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In 2017, at the 23rd Conference of Parties to the United Nations Framework Convention on Climate Change, or COP23, in Bonn, Germany, countries such as Nicaragua were added and United States of America were removed. Among the main topics that were included in the agenda were: (i) progress in the discussions to achieve the

implementation of the Paris Agreement by 2020; (ii) the launch of the "Alliance for a coal-free energy future" led by the United Kingdom and Canada and endorsed by countries such as Mexico, which highlighted that the use of coal as energy must disappear in OECD countries and the European Union by 2030, and in the rest of the countries by 2050; (iii) the need to strengthen climate financing; and (iv) Canada, Mexico and the Climate Alliance, composed of 15 states of the United States, launched a new North American Dialogue on Climate Leadership, from which measures will be promoted to carry out the Mexican proposals on the adaptation and development of early warning systems, as well as commitments to reduce emissions of short-lived pollutants, which Mexico has already begun. Derived from the agreements established in the Climate Alliance, a new provision on the prevention of methane emissions for the oil and gas sector in Mexico was promulgated, effective as of November 2018, which is the first regulation that establishes mandatory measures for reduction of greenhouse gases emissions in Mexico.

In order to comply with these agreements, Mexican regulatory authorities will seek to ensure that the companies conduct business in strict compliance with the Mexican Law on Climate Change, its regulations related to the National Emissions Registry, the Mexican National Strategy on Climate Change (*Estrategia Nacional de Cambio Climático*), and the Mexican National System on Climate Change (*Sistema Nacional de Cambio Climático*). The results of this measures will be shown in biannual reports (Mexico presented its 2nd biannual report at the 24th Conference of the parties COP24 in December 2018). Accordingly, the Company will be required to assume and take into increased consideration the climate-related challenges posed by its operations or facing existing partners and customers, such as Pemex and the Mexican Federal Electricity Commission, which could force it to incur additional costs and could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

The Company is assessing the possibility of adding liquefaction capabilities to the LNG terminal, in November 2018, the Company announced, together with Sempra LNG & Midstream, the signature of three Heads of Agreements with affiliates of Total, Mitsui and Tokyo Gas for the full capacity of Phase 1 of the Energía Costa Azul liquefied natural gas (ECA LNG) project. The agreements contemplate the parties negotiating and finalizing definitive 20-year LNG sale-and-purchase agreements. The three companies will each potentially purchase approximately 0.8 MMTpa of LNG from ECA LNG Phase 1. A final investment decision for ECA LNG is targeted in late 2019 with potential first LNG deliveries in 2023. The Company's LNG terminal is the subject of certain disputes challenging the issuance of the construction and operation permits and authorizations for its LNG terminal, or LNG terminal permits, which may hinder its ability to secure financing for the project or to identify suitable partners and customers. In addition, because the Mexican permitting process and U.S. regulations for the delivery of natural gas to LNG facilities located in Mexico are still under development, the Company cannot assure that it would not face significant challenges in securing the requisite construction permits or building the relevant facilities, and any such challenge could hinder its ability to secure adequate financing or to identify suitable partners and customers for this project. In addition, the development of the proposed liquefaction project will depend to a large extent on the condition of the global markets for LNG, including, in particular, as it relates to the supply and demand for LNG from the west coast of the Americas (also taking into consideration the recent expansion of the Panama Canal), and on the Company's ability to obtain adequate supply or storage of natural gas from the United States. There are a number of potential LNG liquefaction projects under construction or in the process of being developed by various project developers in North America, including the Company's indirect, controlling shareholder's contemplated new projects, and given the projected global demand for LNG, the vast majority of these projects will likely not be completed. In addition, an extended decline in current and forward projections of crude oil could reduce the demand for natural gas in some sectors and cause a corresponding reduction in projected global demand for LNG, which could, in turn, result in increased competition among developers of LNG projects. The Company's LNG terminal has in place several profitable long-term regasification agreements that account for 100% of the terminal's installed capacity. Any decision on whether to add liquefaction capabilities to the terminal will depend in part on whether the investment in the construction of the requisite facilities would be more profitable than the continuing provision of only regasification services, under the existing agreements. Pursuant to the Company's existing agreements, the Company is required to provide storage and regasification services to its customers through 2028 (or later, if customers exercise their renewal rights under such agreements). The Company may opt for offering both regasification and liquefaction, or only liquefaction services to its customers, or for continuing to provide regasification services only. If the Company is unable to continue to offer regasification services to its existing customers, or if the construction of the liquefaction facilities renders it unable to provide such services on a timely fashion, the Company may be held liable for indemnification to such customers under the existing agreements, which could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

As of December 31, 2018, the Company had outstanding borrowings from affiliates in the amount of approximately USD$306.3 million. If the Company's affiliates do not provide it with debt financing in the future, the Company may be unable to secure alternative sources of funding, which would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. While the Company believes that the rates and terms of the borrowings the Company has received in the past from its affiliates are comparable to those the Company would have obtained from unrelated third parties in arm's-length transactions, it can provide no assurance that the Company would have been able to obtain such borrowings from unrelated third parties at rates and on terms that were as favorable to it as those the Company has received from its affiliates. The Company may not be able to obtain similar financing from these affiliates or any alternate third party at reasonable rates and terms or at all. Any failure to obtain sufficient debt financing on acceptable rates and terms could adversely affect the Company's ability to satisfy its contractual obligations or to grow its business and could have a material adverse effect on its business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. See "Recent Developments."

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

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

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

The Company is also engaged in disputes regarding its title to the properties on which the Company's LNG terminal is located. In the event that the Company is unable to defend and retain title to the properties on which the Company's LNG terminal is located, it could lose the Company's rights to occupy and use such properties and the terminal, which could result in breaches of one or more permits or contracts that the Company has entered into with respect to such terminal. If the Company is unable to occupy and use such properties and the terminal, it could have a

material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Company has spent, and continues to spend, substantial amounts of money and time defending these lawsuits, and in related investigations and regulatory proceedings. The uncertainties inherent in legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving these matters. In addition to the matters described above, from time to time the Company may become involved in other litigation and administrative proceedings relating to claims arising out of the Company's operations and properties. These may include claims filed by suppliers and customers, government regulators, including tax authorities, neighboring residents and environmental activists, as well as labor disputes. The outcome of these proceedings may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the legal and administrative proceedings to which the Company is a party, see "Legal, Administrative and Arbitration Proceedings"

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

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

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

The Mexican Electricity Industry Law and the Mexican Hydrocarbon Law provide for similar revocation events that would apply to any new permit the Company obtains for purposes of its business activities. These events include: (1) engaging in discriminatory practices that affect end consumers, (2) failing to comply with the regulation relating to rates and tariffs, (3) assigning a permit without the prior approval of the Mexican Energy Regulatory Commission, (4) failing to exercise the Company's rights under the relevant permit within certain period of time, (5) failure to maintain in full force and effect the required collateral and insurance or (6) the interruption of services without justified cause.

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

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

The Company's facilities, including the Company's LNG terminal, pipeline systems, storage and distribution systems, power generation facilities, and office buildings may be damaged by natural disasters, accidents, acts of terrorism or criminality. Substantially all of the Company's assets are located in areas of northern and central Mexico that are susceptible to earthquakes and wildfires. Natural disasters, accidents, acts of terrorism or criminality could result in severe business disruptions, significant decreases in revenues, and/or significant additional costs to us. Any

such incident could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

Depending on the nature and location of the facilities affected, any such incident also could cause fires, leaks, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries or fatalities. Any of these consequences could lead to significant claims against us. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds the Company receives may be insufficient to cover the Company's losses or liabilities, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. In particular, the Company has declared a force majeure event for the Guaymas - El Oro segment of the Sonora pipeline in the Yaqui territory, and as a result, operation of that segment has been interrupted since August 23, 2017. The Company has begun a series of actions with relevant governmental authorities in order to resume operations. The Company believes that the relevant transportation services agreements for the Sonora pipeline provide adequate protection with regards to the interruption of operations, and the Company has not experienced an economic impact.

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

The sharp decline in oil prices since late 2014 and the low prevailing prices of natural gas have had a negative effect on Pemex's revenues, profits and cash flows. Some rating agencies have expressed concern regarding Pemex's financial condition, including its aggregate debt, which has increased significantly in recent years. Pemex is a customer of some of the Company's assets, and if Pemex becomes unable to satisfy its contractual obligations to the Company, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its Shares.

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

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

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

- Obtaining the necessary property rights and other real estate rights;
- Negotiation of satisfactory engineering, procurement and construction agreements;
- Negotiation of supply and natural gas or electricity sales agreements or firm capacity supply agreements;
- Timely receipt of required governmental permits, licenses authorizations, and rights-of-way;
- Negotiation with local communities and minority groups;
- Timely implementation and satisfactory completion of construction; and
- Obtaining adequate and reasonably priced financing for the project.

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

- Unforeseen engineering problems;
- Unforeseen problems to obtain the requisite rights-of-way and easements, including as a result of the Company's discussions with local and indigenous communities;
- Construction delays and contractor performance shortfalls;
- Work stoppages, strikes or boycotts;
- Equipment unavailability or delay and cost increases;
- Adverse weather conditions;
- Environmental and geological conditions;
- Opposition or challenges (judicial or extrajudicial) by community organizers, stakeholders of industries affected by energy development activities, non-governmental environmental organizations or indigenous communities;
- Risks related to brownfield projects, such as hidden defects, inherited environmental liabilities and problems with rights-of-way;
- Unanticipated increases in costs associated with known or unknown adverse environmental conditions, including costs of compliance with environmental laws; and
- The impact of exchange rates on the cost of imported material and equipment.

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

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

The market for new energy infrastructure projects in Mexico is highly competitive. The Company competes with Mexican and foreign companies for most of the new energy infrastructure projects in Mexico and some of the Company's competitors may have better access to capital and greater financial and other resources, which would give them a competitive advantage in bidding for such projects. The Company may also face increased competition for new energy infrastructure projects and to retain the key employees as a result of the recent amendment of the legal framework for the regulation of Mexico's energy sector. The Company may also decide to compete for energy infrastructure projects in new sectors where the Company has not previously operated, and it may not be able to fully realize the benefit of these new opportunities as it may lack experience or familiarity in these areas. In addition, there are a number of potential new LNG liquefaction projects under construction or in the process of being developed by various developers in North America, including the Company's indirect controlling shareholder's contemplated new projects, and given the projected global demand for LNG, the vast majority of these projects likely will not be completed. Furthermore, the Company may not be able to obtain additional permits from the Mexican Energy Regulatory Commission, the Ministry for the Environment (*Secretaría de Medio Ambiente y Recursos Naturales*) or the Mexican Ministry of Energy, or the favorable opinion of the Mexican Antitrust Commission, which may be required for new energy infrastructure projects. Furthermore, the projections relating to the Mexican energy sector's growth, included in this report, may not ultimately be correct. The inability to successfully obtain new energy infrastructure projects may adversely affect the Company's ability to grow its business, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

The Company generally endeavors to secure long-term contracts with customers to optimize the use of the Company's facilities, reduce volatility in earnings and support the construction of new infrastructure. However, if these contracts are at fixed prices, the profitability of the contract may be materially adversely affected by inflationary pressures (in the case of contracts that are not adjusted for inflation), including rising operational costs and commodity prices, fuel costs, costs of labor, materials and equipment, rising interest rates affect financing costs, and changes in the U.S. Dollar to Mexican peso exchange rate. In addition, the counterparties to the Company's long-term contracts could incur in default with their obligations thereunder and any such default could have a material adverse effect on the Company. While the Company frequently requires that counterparties provide it with bank or other types of guaranties, the financial support provided by the guarantors is not always sufficient to fully offset any losses the Company may suffer and exposes it to counterparty risks. Any of these factors may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The operation of the Company's LNG terminal, pipelines, distribution systems and power generation facilities involve many risks, including, among others:

- The possibility of performing below expected levels of output or efficiency;
- Facility shutdowns due to wear and tear, defects, design errors or the breakdown or failure of equipment or processes, or shortages of replacement equipment, consumables such as oil and grease, or spare parts;
- Unanticipated costs of operations and maintenance;
- Failure to operate at design specifications;
- Operator error;
- Government exercise of eminent domain power or similar events; and
- Operational accidents.

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

The Company depends on a limited number of customers (some of whom are affiliates) with which it has entered into long-term agreements.

The Company has entered into long-term LNG terminal capacity agreements with Shell, Gazprom and IEnova Marketing, under which users pay capacity reservation and usage fees to receive, store and regasify their LNG at the LNG Terminal. The Company has also entered into long-term capacity agreements with a limited number of key customers, including the Mexican Federal Electricity Commission, CENAGAS, Pemex TRI, Shell, Gazprom, Actis and its subsidiary IEnova Marketing, under which users pay capacity reservation and usage fees to receive, transport and deliver natural gas or LPG, as applicable, through the Company's pipelines. After giving effect to the consolidation of the intercompany revenues received from IEnova Marketing, during the years ended December 31, 2018, 2017 and 2016 the Company's four largest customers together accounted for approximately 61%, 61% and 69%, respectively, of total revenues. During the same periods, no other customer accounted for more than 10% percent of the Company's total revenues. In each of 2018, 2017 and 2016, the largest customer accounted for approximately 23%, 26% and 30%, respectively, of the Company's total revenues.

Shell has obtained credit support from BNP Paribas in the amount of USD$130.3 million with respect to its obligations to the Company's LNG business (which amount is permitted to decrease over the life of the contract between the Company and Shell), and credit support from Shell Finance (Netherlands) B.V. in the amount of USD$88.4 million with respect to its obligations to the Company's pipelines business. Gazprom has obtained credit support from Oversea-Chinese Banking Corporation Limited, ABN AMRO Bank N.V., Mizuho Bank Ltd., and Citibank, N.A., for an aggregate amount of USD$90.5 million with respect to its obligations to the Company's LNG business. IEnova Marketing has obtained credit support in the amount of USD$282.0 million from our indirect controlling shareholder, Sempra Energy, also with respect to its obligations to the Company's LNG business and in the amount of USD$105.2 million with respect to its obligations to the Company's pipelines business. There can be no assurance that such credit support amounts would be sufficient to compensate the Company for the damages that may occur if these customers were to default under their obligations.

Typically, these agreements are subject to (1) early termination provisions for the failure of a party to perform its obligations under the agreement, or in the event of insolvency of any of the parties, (2) suspension or termination provisions for *force majeure* events beyond the control of the parties, and (3) substantial limitations on remedies for other failures to perform by any of the parties, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach agreements. In addition, each of the Federal Electricity Commission and the Mexican Public Administration Ministry (*Secretaría de la Función Pública*) may also terminate the agreement before expiration if it determines that doing so would be in the general public interest *(interés público)* by providing evidence that compliance with the agreement would result in losses and damages to Mexico or if, for justified cause, the Mexican Federal Electricity Commission no longer requires the supply of natural gas, in each case subject to a hearing and other due process procedures.

If the customers in one or more of these agreements were to fail to perform or become unable to meet their contractual obligations on a timely basis, or if any of these agreements is prematurely terminated, it could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. Furthermore, there can be no assurance that, in the event of termination of any of these agreements, the Company would be able to enter into LNG storage capacity or natural gas transportation service agreements with other users or customers on a long-term basis, on otherwise favorable terms, or at all, and the Company's inability to do so could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

The Company's businesses depend on key suppliers performing in accordance with their agreements. In particular, the Company's LNG business has been relying upon Sempra Natural Gas (a business operating division of Sempra Energy that includes the Company's U.S. subsidiaries that sell LNG and buy and/or sell natural gas and electricity to and from Sempra Energy) for an adequate supply of LNG to keep the Company's LNG terminal sufficiently cold to

remain in continuous operations and as a source of natural gas to sell to customers. Since the Company's LNG terminal commenced operations, the Company has not been able to obtain sufficient quantities of LNG from Sempra Natural Gas to satisfy all of IEnova Marketing's contractual obligations to its natural gas customers using regasified LNG. However, Sempra Natural Gas is able to purchase and supply the required quantities of gas at the U.S. border, and Sempra Natural Gas makes payments to IEnova Marketing to cover fixed LNG terminal and pipeline capacity costs to the extent its reserved capacity is underutilized because it provides IEnova Marketing less than the full amount of LNG each year. This payment obligation has mitigated the losses that IEnova Marketing would otherwise have experienced in recent years. With respect to the ECOGAS natural gas distribution business, since 2018 the Company has relied the supply of natural gas through the transportation system principally of CENAGAS for Chihuahua and Durango and SoCalGas for Mexicali in order to deliver the gas to their customers. If these key suppliers fail to perform, the Company could incur substantial expenses, and in some cases, be exposed to commodity price risk and volatility, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

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

The Company also depends on natural gas pipelines to interconnect with its suppliers and customers, and relies on specialized ships to transport LNG to its LNG terminal and on transmission lines to transport the electricity that it sells to its customers. If transportation is disrupted, or if capacity is inadequate, the Company's ability to sell and deliver its products and services may be hindered. As a result, the Company may be responsible for damages incurred by its customers, such as the additional cost of acquiring alternative natural gas, LPG or electricity supplies at then-current spot market rates, which could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

The Company does not own all of the land on which the Company's pipelines, facilities and ancillary infrastructure are located, so its operations could be disrupted by actions of the landowners.

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

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

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

The Company buys energy-related commodities from time to time in order to satisfy contractual obligations with customers. The Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities could be materially adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that the Company buys change in a direction or manner not anticipated and for which the Company had not provided adequately through purchase or sale commitments or other hedging transactions. In addition, while at present the Company is not directly exposed to market risks in connection with the ECOGAS natural gas distribution business because the price the Company pays for natural gas is passed through to the ECOGAS customers, natural gas prices relative to LPG prices affect the Company's ability to sell natural gas, and accordingly, may have a material impact on the natural gas distribution business. On January 1, 2012, the Company's Termoeléctrica de Mexicali power plant began selling electricity to the U.S. market on a merchant basis pursuant to an electricity management agreement dated as of January 1, 2013 with the affiliate, Sempra Generation. On December 2016, the contract was assigned to other Sempra's affiliate Sempra Gas & Power Marketing. Under this arrangement the Company is no longer reimbursed for its purchases of natural gas to fuel Termoeléctrica de Mexicali power plant as the Company

was in prior years and may also need to purchase electricity in the open market to satisfy contractual obligations. This arrangement exposes the Company to significantly more commodity price risk than the previous agreement the Company had in place to sell electricity from the power plant directly to the Company's affiliate Sempra Generation. Termoeléctrica de Mexicali power plant competes in the U.S. open market for the sale of electricity and other related products, and its profitability is affected by the price of commodities such as natural gas and the prices for its products in the open market. Additionally, under this new agreement the Company's annual costs of energy management services rose approximately up to USD$5.0 million in connection with Termoeléctrica de Mexicali. Furthermore, the Company currently purchases natural gas to supply Termoeléctrica de Mexicali power plant directly from its subsidiary IEnova Marketing.

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

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

Unanticipated changes in market prices for energy-related commodities result from multiple factors, including: (1) weather conditions, (2) seasonality, (3) changes in supply and demand, (4) transmission or transportation constraints or inefficiencies, (5) availability of competitively priced alternative energy sources, (6) commodity production levels, (7) activities by oil and gas producing nations or organizations affecting the global supply of crude oil and natural gas, (8) energy and environmental regulation legislation, (9) natural disasters, wars, embargoes and other catastrophic events, and (10) expropriation of assets by governmental authorities. Finally, the Company often extends credit to counterparties and customers. While the Company performs credit analysis prior to extending credit, the Company is exposed to the risk the Company may not be able to collect amounts owed to it. Such changes in market prices or inability to collect amounts owed to the Company could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities. For additional information regarding the Company's hedging strategy and position, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Quantitative and Qualitative Discussion of Market Risk" and Notes 21 and 24 to the Company's audited financial statements included elsewhere in this report.

LPG prices could materially adversely affect the Company's natural gas distribution business.

Historically, LPG prices were subsidized by the Mexican federal government, but these subsidies have already been canceled. If the Company is not able to obtain competitively priced natural gas relative to the LPG that is available to its customers and potential customers through its competitors, the profitability of the natural gas distribution business could be materially adversely affected, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

The Mexican federal government's electricity price subsidy policy could materially adversely affect the electric energy distribution business.

Currently electricity prices are subsidized by the Mexican federal government; these electricity subsidies could put Ventika and our solar energy projects power purchase agreements at a competitive disadvantage. If the Mexican federal government's electricity price subsidy policy continues and the Company is unable to provide electricity at prices that are competitive to those available to its customers and potential customers through its competitors, the profitability of the Ventika wind power generation facilities could be materially adversely affected, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

As the Company shares the control of some joint ventures with its partners, and in the event of any disagreement between it and its partners the Company may be forced to sell its interest in the relevant joint venture, purchase its partners' interests therein or submit to dispute resolution proceedings. If any joint venture partner were unwilling to cooperate effectively with the Company in the management and operation of the joint venture, this could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

As of December 31, 2018, the Company had 1,035 employees. These included 167 administrative employees and 868 operation and maintenance workers, of whom 34 were covered by collective bargaining agreements with several labor unions. The Company's collective bargaining agreements are negotiated on a facility-by-facility basis, and the compensation terms are adjusted on an annual basis, whereas all other terms are renegotiated every two years.

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

Additionally, As a consequence of the constitutional amendment on Article 123 of the Mexico Constitution back in 2017, it is expected an amendment to the Federal Labor Law for May 1, 2019 modifying, among others, rules and procedures to labor unions and the creation of new labor courts. However, the company cannot predict the impact of those amendments to the Labor Law in its daily activities.

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

The operations and continued growth of the Company's business is dependent upon being able to attract and retain personnel, including corporate management, specialized engineers and employees who have the necessary and required experience and expertise to manage and operate the Company's businesses. Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

The insurance the Company contracts may be inadequate.

The Company has insurance for its operations in Mexico, including the Company's LNG terminal and related marine facilities, power generation facilities, pipeline systems, storage systems and power distribution systems, including property insurance, commercial general liability insurance, excess liability insurance, environmental liability insurance and business interruption insurance, in amounts and with deductibles that the Company considers appropriate. However, the Company cannot assure you that the insurance currently in place or other insurance that may be appropriate will be available in the future at commercially reasonable rates. In addition, in any particular instance the Company's insurance coverage could prove to be insufficient or an accident or casualty could occur that either is not covered or becomes the subject of a dispute. Currently, the Company does not carry certain types of insurance (for example, for losses caused by war or government action) because these types of losses are often not economically insurable.

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

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

The Company's business involves storing and transporting highly flammable and explosive materials, which are subject to extensive regulation. Even if the Company complies with requisite environmental, sanitary, security,

transportation, risk management and safety requirements and standards, its operations are subject to significant hazards associated with using, storing, transporting and disposing of such materials, including:

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

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

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

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

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

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

Finally, as seen with recent cyber-attacks on U.S. corporations, the goal of a cyber-attack may be primarily to inflict large-scale harm on a company and the places where it operates. Any such cyber-attack could cause widespread disruptions to the Company's operation and administrative systems, including the destruction of critical information and programming, These kind of events could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

Elements of the Company's energy infrastructure may be exposed to cyber security risks. In addition to general information and cyber risks, such as malware, malicious intent by insiders and inadvertent disclosure of sensitive information, the energy industry faces evolving cyber security risks associated with protecting sensitive and confidential customer information, smart-grid infrastructure, automated metering, and other electronic infrastructure components. Deployment of new business technologies represents a new and large-scale opportunity for attacks on information systems and confidential information as well as the integrity of the energy grid and natural gas infrastructure. While the Company's information technology systems have been and will likely continue to be subjected to the risk of computer viruses or other malware, unauthorized access, attempts and cyber or phishing attacks, to date the Company has not experienced a material cybersecurity breach. Addressing these risks is the subject of significant ongoing activities across the Company's businesses, but no assurance can be given that a successful attack will not occur. Any attack on the Company's information systems, the integrity of the energy grid or any of the Company's facilities, or the unauthorized use of confidential customer data could result in energy delivery service failures, financial loss, violations of privacy laws, customer dissatisfaction and litigation, any of which, in turn, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

In the ordinary course of the Company's business, it collects and retains sensitive information, including personal identification information about customers and employees, customer energy usage and other information. The theft, damage or improper disclosure of sensitive electronic data can subject the Company to penalties for violation of applicable privacy laws, subject it to claims from third parties, require compliance with notification and monitoring regulations and harm reputation. Finally, as seen in recent cyber attacks in US companies, the purpose of a cyber attack could have a higher impact on the place where the Company operates. Any cyber attack could cause widespread disruption to its operating and administration systems, including the destruction of critical information and programming, which could affect the business, operations and integrity of the electric network, reveal Company's confidential information, as well as its customers, employees and others.

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

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

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

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

Several of the wholesale markets supplied by merchant power plants have experienced significant pricing declines due to excess supply of energy and related products. The results of the Termoeléctrica de Mexicali power plant could be adversely affected if it is unable to adequately sell its output through long-term agreements or at prices that are higher than the future price curves, or if it needs to recognize losses with respect to the capital already invested in the project as a result of significant changes to the market or regulatory conditions, among other factors, these are risks that the Company takes. The Company may manage risks at Termoeléctrica de Mexicali by optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions. However, the Company cannot provide assurance regarding the implementation of these risk management measures or how successful such implementation may be, and entering into long-term contracts in oversupplied markets could prove difficult.

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

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

- Natural gas, LPG and ethane pipelines, storage and compression facilities;
- LNG and refined product such as diesel, gasoline or jet fuel terminals and storage;
- Electric transmission infrastructure; and
- Power generation facilities.

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

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

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

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

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

Volatility in the market price of the shares and other securities issued by the Company may prevent you from being able to sell your shares or other securities at or above the price you paid for such shares or other securities. The

market price and liquidity of the market for the Company's securities may be significantly affected by numerous factors, some of which are beyond its control and may not be directly related to its operating performance. These factors include, among others:

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

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

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

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

of operations of the Company's subsidiaries or joint ventures could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities.

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

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

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

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

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

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

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

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

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

The Company's indirect controlling shareholder, Sempra Energy, has guaranteed the obligations of IEnova Marketing to the LNG terminal and to the Company's pipelines business, has entered into a loan agreement with the

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

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

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

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

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

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

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

The amount available for cash dividends, if any, will be affected by many factors, including the Company's future operating results, financial condition and capital requirements, and the terms and conditions of legal and contractual restrictions, such as the terms of debt instruments applicable to us, the Company's subsidiaries and joint ventures, among other variables. Also, the amount of cash available for dividend payments may vary significantly from estimates. The Company can offer no assurance that the Company will be able to pay or maintain the payment of dividends. The Company's actual results may differ significantly from the assumptions made by the Company's board of directors in recommending dividends to shareholders or in adopting or amending a dividend policy in the future. Also, there can be no assurance that the Company's board of directors will recommend a dividend payment to the

Company's shareholders or, if recommended, that the Company's shareholders will approve such a dividend payment. Sempra Energy, as the Company's indirect controlling shareholder, has the ability to establish and modify any dividend policy as well as to determine the payment of dividends, if any. The payment of dividends and the amounts of dividend payments paid by the Company to the Company's shareholders are subject to the approval of the Company's shareholders. As long as the Company's indirect controlling shareholder continues to own the majority of the Company's shares, it will have the ability to determine whether dividends are paid and the amount of such dividends.

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

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

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

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

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

Preemptive rights may be unavailable to non-Mexican shareholders.

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

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

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

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

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

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

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

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

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

Certain provisions in the Company's bylaws could make it difficult for a third party to acquire a significant ownership percentage of the Company's shares without creating an obligation to purchase all or part of the Company's shares. These bylaw provisions could discourage certain types of transactions involving the acquisition of the Company's

shares. Also, these provisions could discourage transactions in which the Company's shareholders would receive a premium on current market value for their shares. If a person undertakes a share acquisition in violation of the anti-takeover provisions contained in the Company's bylaws, such person will not be able to exercise the corporate rights otherwise conferred by the relevant shares, including, specifically, any voting rights with respect to such shares. Furthermore, a person who acquired shares in violation of these provisions would be required to sell them in a single transaction or a series of transactions through the Mexican Stock Exchange within 90 days of such acquisition, without prejudice of the economic rights accruing in favor of such person as a result of the ownership of such shares pending their sale. The Company's board of directors may consider certain factors set forth in the Company's bylaws, as well as any prior approvals of governmental authorities required for such acquisition, including antitrust or other regulatory approvals. See "Management- the Company's Bylaws and Other Agreements - Anti-Takeover Protections".

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

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

Risks Relating to Forward-looking Statements

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

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

- Local, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- Actions and the timing of actions by regulatory, governmental and environmental bodies in Mexico and other countries, including actions relating to the reform of the Mexican energy sector;
- Energy markets, including the timing and extent of changes and volatility in commodity prices;
- Services and financing provided to the Company by affiliates;
- The resolution of litigation and property disputes;
- The loss of significant suppliers or customers;
- The Company's ability to hire, train and retain qualified employees and executives;
- The timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;
- The Company's ability to successfully compete with its peers for the award of energy infrastructure projects;

- The availability of electric power, natural gas, LNG, LPG, ethane and refined products including disruptions caused by explosions and equipment failures;
- Wars, terrorist attacks, local crime, weather conditions, natural disasters, catastrophic accidents and conservation efforts;
- Inflation, interest and exchange rates;
- Business, regulatory, environmental and legal decisions and requirements;
- The inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity supply agreements, including those denominated in or indexed to the U.S. Dollar;
- Increased competition due to expected expansion of the natural gas sector in Mexico;
- Reliance on transportation assets and services that the Company does not own or control to deliver natural gas;
- Risks posed by working with volatile and hazardous materials;
- Risks posed by attacks on the Company's information systems and integrity of its energy grid;
- Temporary or permanent disruption of operations at the Company's existing pipelines and/or storage facilities due to acts of God, *force majeure* or other events outside of the Company's control;
- Government expropriation of assets and title and other property disputes;
- Capital markets conditions, including the availability of credit and the liquidity of the Company's investments;
- Risks relating to the inability or unwillingness of the Company's counterparties to satisfy their contractual obligations to the Company;
- Risks relating to the decisions and actions of the Company's joint venture partners; and
- Other risks and uncertainties discussed under "Risk Factors" and elsewhere in this report.

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

OTHER SECURITIES

The Company established a five-year program for the issuance of Notes in an aggregate principal amount of up to Ps.12.8 billion or its equivalent in Mexican UDIs, which was approved by the Mexican Banking and Securities Commission for registration with the Mexican Securities Registry maintained by it, under registration No. 3420-4.15-2013-001, effective February 11, 2013. This program expired on February 11, 2018.

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.12.7364 to USD$1.00 published by the Banco de México on February 12, 2013, which is the date of execution of the foreign currency swaps discussed below) under this program: A series of 10-year, 6.30% Notes in the principal amount of Ps.3.9 billion (USD$306 million), and a series of floating-rate Notes in the principal amount of Ps.1.3 billion (USD$102 million) that accrue interest at the TIIE rate plus 30 basis points. The second series of Notes were paid at maturity on February 8th, 2018. The Company used the net proceeds from the sale of the Notes, or approximately USD$408 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and to fund the Company's expansion plans. On February 12, 2013, the Company entered into certain swap agreements to hedge its exposure to changes in interest rates and to the Company's Mexican peso-denominated obligations under the Notes. These included a swap agreement pursuant to which the Company replaced the floating, Mexican-peso denominated interest rate on the five-year Notes due in 2018, with a fixed, U.S. Dollar-denominated rate, and a swap agreement pursuant to which the Company replaced the fixed, Mexican peso-denominated interest rate on the Company's 10-year Notes due in 2023, with a fixed, U.S. Dollar-denominated rate. See "Financial Condition, Liquidity and Capital Resources – Debt, Historical" and "Financial Condition, Liquidity and Capital Resources – Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk Management."

On December 14, 2017, the Company issued USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048 (collectively, the "Senior Notes"). The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes. The Senior Notes were offered and sold in a private placement to qualified institutional buyers in the United States pursuant to Rule 144A and outside the United States pursuant to Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"). The Company did not register the Senior Notes in Mexico or the United States. The Senior Notes were registered in the Singapore Exchange Securities Trading Limited.

As a result of the above, the Company is subject to the disclosure and reporting requirements imposed by the Mexican Banking and Securities Commission's Rules for Securities Issuers, Rules for External Auditors and the Internal Regulations of the Mexican Stock Exchange. For each periodical report or communication presented before the CNBV and BMW, the Company will file simultaneously an English version, with certain exceptions due to time difference, to the Singapore Exchange Securities Trading Limited. Except as described above, the Company is not subject to any disclosure requirements imposed by other regulatory authorities or securities markets.

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

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

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

USE OF PROCEEDS

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

PUBLIC DOCUMENTS

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

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

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

THE ISSUER

a) The Company's History and Evolution

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

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

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

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

Recent Developments

The Company announced increase and term extension to revolving credit agreement. In February 2019, IEnova informed that in connection with its existing revolving credit agreement of USD$1,170 million, it entered into an amendment agreement to (i) increase the amount of the credit line under the Credit Agreement to USD$1,500 million, (ii) extend the term thereof from August 2020 to February 2024 and (iii) include JP Morgan and Credit Agricole in the lenders' syndicate. The financial institutions that are part of the Credit Agreement are: Banco Santander, MUFG Bank, The Bank of Nova Scotia, Sumitomo Mitsui Banking Corporation, Banamex, Bank of America, BBVA Bancomer, Mizuho Bank, JP Morgan and Credit Agricole.

On April 11, 2019, the Company entered into a revolving credit agreement with Scotiabank for up to USD $100 million. The term is three years starting from the date of execution, and withdrawals may be made for up to one year in either U.S. Dollars or Mexican pesos.

On April 30, 2019, the Company announced the execution of two long-term contracts for the receipt, storage, and delivery of refined products in terminals that IEnova is developing in Manzanillo, Colima, and Guadalajara, Jalisco.

Material Events

In December 2018, IEnova announced the execution of a 15-year electricity supply contract with Minera Autlán. The electricity will be generated through its portfolio of solar generation projects.

In November 2018, IEnova announced the execution of a revolving credit agreement with Sempra Global, an affiliated company, for up to USD$320 million with a term that expires in August 2020.

In November 2018, IEnova announced, together with Sempra LNG & Midstream, the signature of three Heads of Agreements with affiliates of Total, Mitsui and Tokyo Gas for the full capacity of Phase 1 of the Energía Costa Azul liquefied natural gas (ECA LNG) project located in Baja California, Mexico. The agreements contemplate the parties negotiating and finalizing definitive 20-year LNG sales-and-purchase agreements. The three companies will each potentially purchase approximately 0.8 MMtpa of LNG from ECA LNG Phase 1. A final investment decision for ECA LNG is targeted in late 2019 with potential first LNG deliveries in 2023.

In October 2018, IEnova announced the execution of a 15-year electricity sale and purchase agreement with various affiliates of Scotiabank. The electricity will be generated by IEnova's portfolio of solar generation projects.

The Company signed purchase and sale contracts in association with agreements for the development of a marine terminal for refined products in Manzanillo, Colima and a contract for the use of 50% of its initial capacity. In September 2018, the Company announced the execution of a long-term, U.S. Dollar-denominated terminal services agreement with a subsidiary of Trafigura for 740,000 barrels of storage capacity in a marine facility for the receipt, storage and delivery of refined products in Manzanillo, Colima. As part of the agreements, IEnova also acquired 51% of the equity of the company whose subsidiary owns certain permits and land where, subject to the issuance of the remaining permits and other conditions, the project will be built. Affiliates of Trafigura retained 49% of the equity of the project. Both companies entered into a Joint Venture Agreement governing the development, construction, and operation of the project. IEnova will have control over all aspects of project implementation, including finalizing permits, securing customers for the additional capacity, and completing detailed engineering, procurement, construction, financing, operation and maintenance of the terminal. The project's estimated investment is USD$200 million, and the company anticipates, subject to the timing of issuance of the remaining permits, the start of commercial operations in the fourth quarter of 2020.

On August 8, 2018, the Company announced that the Board of Directors has appointed Tania Ortiz Mena López Negrete as Chief Executive Officer (CEO) of IEnova effective September 1, 2018. Tania Ortiz Mena López Negrete previously served as Chief Development Officer of IEnova and has over 19 years of experience in IEnova and 25 years of experience in the industry. Carlos Ruiz Sacristán was ratified as Chairman of the Board of Directors of IEnova, so he will continue, together with Tania Ortiz Mena López Negrete, promoting the company's growth strategy.

The Company was awarded the public tender issued by Integral Port Administration of Topolobampo in Sinaloa. In July 2018, the Company was awarded the public tender issued by the Integral Port Administration (API) of Topolobampo for the construction and operation of a marine terminal for the receipt and storage of hydrocarbons and other liquids, primarily diesel and gasoline. The first phase of the terminal will have a capacity of approximately one million barrels and an estimated investment of USD$150 million. The terminal could also be expanded to store additional refined products and/or offer service for other products such as petrochemicals. It is expected to begin operations during the fourth quarter of 2020. In September and October 2018, IEnova announced the execution of two long-term, U.S. Dollar denominated contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal for the receipt, storage, and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50% of the terminal's initial one million barrels of storage capacity. Additionally, another subsidiary of Chevron will have the right to acquire up to 25% of the equity of the terminal after commercial operations begin.

In June 2018, during IEnova's Ordinary General Shareholders' Meeting, the formation of a fund to purchase the company's own shares was approved on the terms provided in Article 56, Section IV of the Securities Market Law, up to a maximum amount of USD$250 million for 2018. In November 2018, the Company appointed J.P. Morgan as its agent for the Share Purchase Program. As of April 30, 2019, the Company has repurchased 3.6 million shares.

The Company executed two long-term contracts related to the Baja Refinados marine terminal for the receipt, storage and delivery of refined products in Baja California. In April 2018, the Company announced a project to develop, construct and operate a marine terminal that will receive, store and deliver hydrocarbons, primarily gasoline and diesel, within the La Jovita Energy Center, which is located 23 km north of Ensenada, B.C., Mexico. In connection with this terminal, the Company executed two long-term contracts, one with Chevron and the other with BP for the storage and delivery of hydrocarbons. Together, these two contracts represent 100% of the initial total terminal storage capacity

(which is approximately 1,000,000 barrels). Currently, an affiliate of Chevron has the option to acquire 20% of the equity of the terminal after commercial operations begin. With an investment of approximately USD$130 million, the terminal is expected to begin commercial operations in the fourth quarter of 2020.

Execution of long-term electric supply contract with Liverpool. In February 2018, the Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by Don Diego Solar, a new $125MW_{AC}$ solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora. The plant, which will have the capacity to supply Liverpool and other large energy consumers, will begin operations in the second half of 2019 and have an estimated investment of USD$130 million.

Execution of a standby letter of credit facility agreement. In January 2018, the Company announced the execution of a standby letter of credit facility and reimbursement agreement, up to an amount equivalent to USD$1.0 billion, in order to make more efficient and standardize the process for issuing of standby letters of credit requested by governmental entities or third parties. The bank syndicate is formed by Banco Nacional de Mexico, SMBC, BBVA Bancomer, Scotiabank Inverlat, Mizuho, BNP Paribas and Santander. This agreement has a term of five years. The standby letter of credit facility agreement and the standby letters of credit issued under the same do not constitute the Company's debt.

b) Business description

i) Main activity

The Company is the first private-sector publicly traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. The Company develops, builds and operates energy infrastructure. Its activities in Mexico include several business lines that encompass a significant portion of the Mexican energy infrastructure value chain that is open to private investment.

The Company’s assets are divided in two business segments: (1) gas segment, which includes natural gas, LNG and LPG pipelines and storage, compression of natural gas, ethane transportation for liquid and gas phases, distribution of natural gas and refined products storage, the latter currently under construction; and (2) power segment, which includes a natural-gas-fired, combined-cycle power generation facility, wind power generation facilities and solar power generation facilities, some of which are currently in development or under construction. The Company’s assets generate revenues primarily under U.S. Dollar-denominated contracts on a firm basis, which are long-term in nature and entered into with predominantly stable, creditworthy counterparties.

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant (TDM). As a result, early 2016, the results of the Termoeléctrica de Mexicali power plant were reclassified and included in our consolidated financial statements under discontinued operations, net of income tax. In June 2018, the Board of Directors determined to end such sale process. Accordingly, the financial results for the Termoeléctrica de Mexicali power plant were again reclassified and are currently presented as continuing operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and included in the consolidated financial statements of the Company as continuing operations. In order to provide a meaningful comparison, for purposes of this Report, the Company re-presented its historical consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, to reflect the financial results of TDM under continuing operations. See note 12 of the audited financial statements.

During the last 22 years, the Company has increased its presence as a leader in private investment in the Mexican energy sector (including through new projects development, organic growth, acquisitions and a diversifying its customer base), investing approximately USD$8.2 billion in Mexican energy infrastructure, including acquisitions and investments through joint ventures.

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

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

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

- The Company was partners with state-controlled Pemex TRI in IEnova Pipelines, formerly Gasoductos de Chihuahua, the first natural gas infrastructure joint venture in Mexico between Pemex and private companies, and on September 27, 2016, the company increased its indirect equity interest in IEnova Pipelines from 50% to 100% when the Company acquired the remaining 50% interest from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million;

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

- The Company is building, through a joint venture with TransCanada, the marine pipeline South of Texas-Tuxpan, an approximately 800 km natural gas transportation system with a capacity of approximately 2,600 MMcfd (27 MMThd) and a compression station pursuant to a natural gas transportation services agreement entered into with the Mexican Federal Electricity Commission in June 2016. It is expected to commence commercial operations in the second quarter of 2019 with an investment of approximately USD$992 million;

- The Company announced the execution of a 20-year contract between ESJ Renovable II, S. de R.L. de C.V. and DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant that will be located in Caborca, Sonora. In the first quarter of 2019, Pima Solar started operations with 110 MW_{AC} of capacity and the investment is approximately USD$115 million;

- The Company was awarded a concession by the Integral Port Authority (Administración Portuaria Integral) of Veracruz for the construction and operation of a new marine terminal in the new port of Veracruz, which will be used for the receipt, storage and delivery of refined petroleum products, mainly gasoline, diesel and jet fuel. It will have a capacity of approximately 2.1 million barrels, and it is expected to commence commercial operations between the fourth quarter 2019 and first quarter of 2020;

- The Company executed a long-term, Dollar-denominated firm storage capacity contract with a subsidiary of Valero for the full capacity of the new marine terminal in Veracruz, and another two in-land terminals in Puebla and Valle de Mexico area. The estimated investment is USD$440 million for the marine terminal and two in-land terminals. The Company expects that the two in-land terminals will commence commercial operations between the fourth quarter 2019 and first quarter of 2020;

- The Company was awarded the public tender issued by Integral Port Administration of Topolobampo in Sinaloa. The first phase of the terminal will have a capacity of approximately one million barrels and an estimated investment of USD$150 million. The terminal could also be expanded to store additional refined products and/ or offer service for other products such as petrochemicals. It is expected to begin operations during the fourth quarter of 2020. In September and October 2018, IEnova announced the execution of two long-term, U.S. Dollar denominated contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal in Topolobampo,

Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50% of the terminal's initial one million barrels of storage capacity;

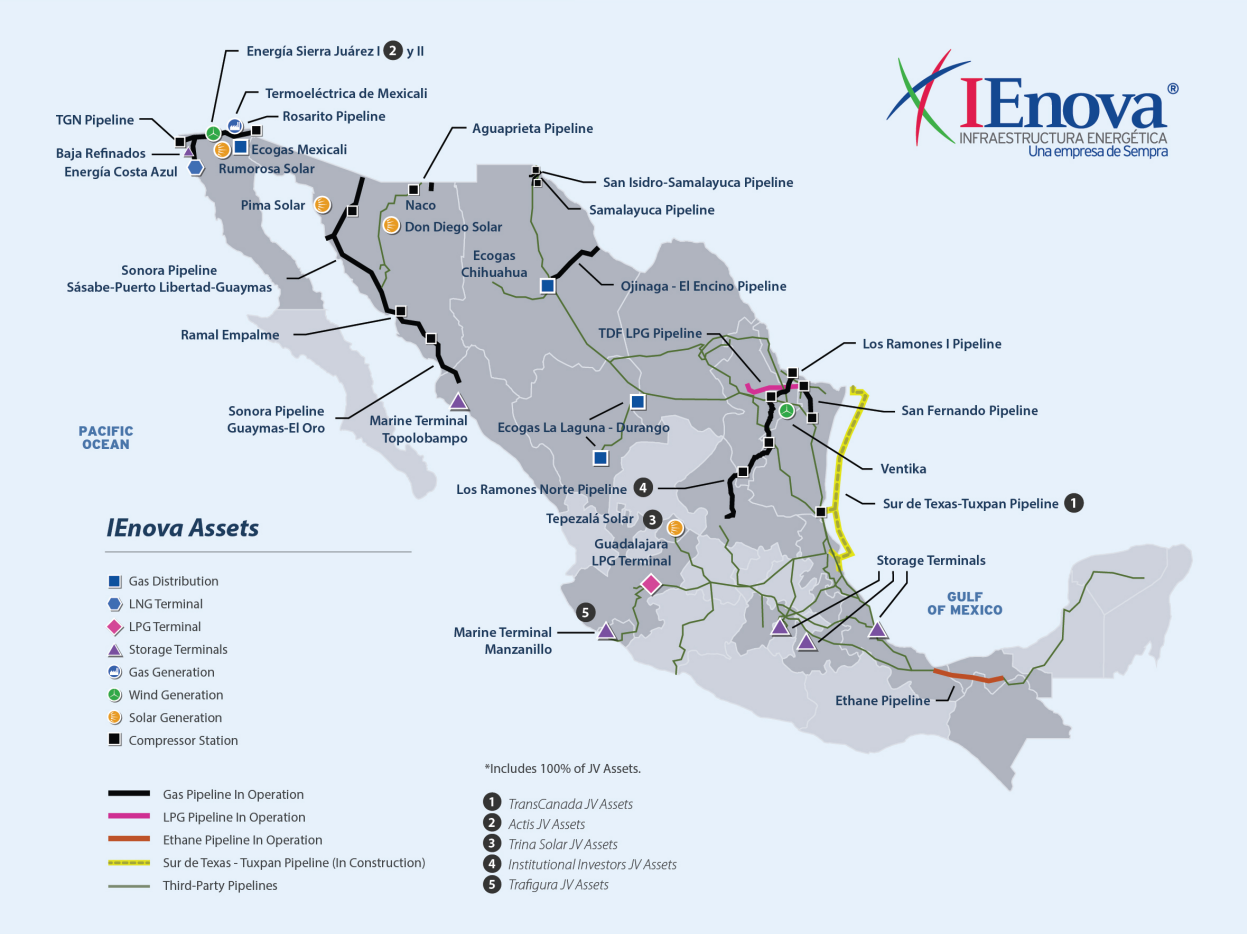
- The Company executed two long-term contracts related to the Baja Refinados marine terminal, one with Chevron and the other with BP for the storage and delivery of hydrocarbons, mainly gasoline and diesel. Together, these two contracts represent 100% of the initial total terminal storage capacity of one million barrels. With an investment of approximately USD$130 million. The terminal is expected to begin commercial operations in the fourth quarter of 2020;

- The Company announced the execution of a long-term, U.S. Dollar-denominated terminal services agreement with a subsidiary of Trafigura for 740,000 barrels of storage capacity in a marine facility for the receipt, storage and delivery of refined products in Manzanillo, Colima. As part of the agreements, IEnova also acquired 51% of the equity of the company whose subsidiary owns certain permits and land where, subject to the issuance of the remaining permits and other conditions, the project will be built. The project's estimated investment isUSD$200 million, and the company anticipates, subject to the timing of issuance of the remaining permits, the start of commercial operations in the fourth quarter of 2020;

- The Company announced the execution of a 15-year electricity supply contract with Liverpool. The electricity will be generated by Don Diego Solar. The project will have a capacity of 125MW_{AC} with an investment of approximately USD$130 million; and

- The Company announced the execution of a 15-year electricity sale and purchase agreement with Scotiabank and Autlán. The electricity will be generated by IEnova's portfolio of solar generation projects.

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



Gas Segment

Pipelines and Storage Business

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

    - More than 2,900 km of natural gas pipelines (including approximately 800 km under construction as of December 2018) with an aggregate design capacity of over 16,501 MMcfd (171.6 MMThd;
    - Twelve natural gas compression stations in operation and three currently under construction, with an aggregate of over 588,810 horsepower;
    - 190 km of LPG pipelines with a design capacity of 34,000 bpd (1.9 MMThd);
    - 224 km of ethane pipelines with a transportation capacity of up to 52 MMcfd (0.6 MMThd) in the first segment (as ethane gas); approximately 152 MMcfd (1.8 MMThd) in the second segment (as ethane gas), and approximately 106,000 bpd (3.1 MMThd) in the third segment (as ethane liquid); and

- An LPG storage facility with a total capacity of 80,000 bpd (4.4 MMTh), near Guadalajara, in the state of Jalisco.

- The Company's current pipeline assets include the Rosarito pipeline system, the TGN pipeline, the Aguaprieta pipeline, the Naco compression station, the Sonora pipeline, the Ojinaga–El Encino pipeline, the San Isidro – Samalayuca pipeline, the Empalme Lateral pipeline, the San Fernando pipeline, Samalayuca pipeline, Los Ramones I pipeline, TDF LPG pipeline, Gloria a Dios compression station, Guadalajara LPG terminal, Ethane pipeline and through joint ventures, Los Ramones Norte pipeline and the South of Texas – Tuxpan pipeline (the Company expects to commence commercial operations in the second quarter of 2019).

Liquefied Natural Gas Business

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

Refined Products Business

The refined products storage business develops systems for the receipt and storage of petroleum products and other liquids, mainly gasoline, diesel and jet fuel in the states of Baja California, Colima, Puebla, Sinaloa, Veracruz and Valle de Mexico. Currently, the Company has four marine and two in-land terminals in process of development or construction, with a storage capacity of 6.9 million barrels, and with the possibility of expansion.

Natural Gas Distribution Business

The Company owns and operates the ECOGAS natural gas distribution utility, which covers three distribution areas: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango). With pipelines of approximately 3,950 km in length, this system currently serves over 122,000 industrial, commercial and residential customers.

For the years ended December 31, 2018, 2017 and 2016, the gas segment had revenues of approximately USD $1,059 million, USD$992 million and USD$651 million, respectively, which accounted for 77%, 81% and 85% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$716 million, USD$663 million and USD$481 million, respectively, which accounted for 82%, 87% and 95% of the total adjusted EBITDA for the periods ended December 31, 2018, 2017 and 2016. This revenue figure does not include net equity in earnings from the Company's joint ventures, which are accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint ventures in the gas segment adjusted EBITDA.

Power Segment

Natural Gas Fired Power Generation Business

The Company owns and operates the Termoeléctrica de Mexicali power plant, a 625 MW natural-gas-fired, combined-cycle power generation facility located near Mexicali, Baja California. The power plant, which commenced commercial operation in June 2003, receives natural gas through a connection with the Rosarito pipeline system, which allows it to receive regasified LNG from the LNG terminal as well as gas supplied from the United States through the North Baja pipeline system. This facility is a modern, efficient combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and the state of California,

and in February 2013 and 2015, this facility received a clean industry certificate for outstanding environmental performance from the Mexican Environmental Protection Enforcement Agency (*Procuraduría Federal de Protección al Ambiente*) valid for two years. The plant is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator (CAISO) at the Imperial Valley substation and is capable of providing energy to a wide range of potential customers in California. Although all of the plant's production is currently connected to the United States network, the physical transmission can be modified to deliver all or part of the production to the La Rosita substation of the CFE through the construction of a transmission line of approximately two kilometers subject to obtaining the necessary permits, including those that are granted to the CRE.

Wind Powered Generation Business

The Company has four wing power generation facilities located in Baja California and Nuevo Leon, these wind parks have the following characteristics:

- Energía Sierra Juárez is a joint venture with Actis, in which the Company holds a 50% interest. The initial phase of this project consists of 47 wind turbines with a total capacity of 155 MW. The full amount of electricity from the initial phase is purchased by the U.S. affiliate San Diego Gas & Electric Company under a 20-year power purchase agreement. In November 2017, the Company executed a 20-year power purchase agreement with San Diego Gas & Electric Company, through a new wind power generation facility that will be located near the initial phase of Energía Sierra Juárez. This second phase of the project is currently under construction and start date of commercial operation is estimated during fourth quarter of 2020, the project will have a 108 MW capacity and will require an investment of approximately USD $150 million.

- Ventika includes two adjacent wind parks located in Nuevo Leon with a capacity of 152 MW through 84 wind turbines. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreements.

Solar Powered Generation Business

The Company has three solar parks under construction and one in operations in Aguascalientes, Baja California and Sonora. These parks have the following characteristics:

- Rumorosa Solar, with a capacity of approximately 41 MW_{AC}. Commercial operation is expected during the second quarter of 2019, with an investment of approximately USD$50 million.

- Tepezalá Solar, with a capacity of approximately 100 MW_{AC}. The project is under development and construction in association with Trina Solar, who will maintain a 10% minority participation. Commercial operation is expected during the second quarter of 2019, with an investment of approximately USD$100 million.

- Don Diego Solar with a capacity of approximately 125 $MW_{AC.}$ Commercial operation is expected during the fourth quarter of 2019, with an investment of approximately USD$130 million.

- Pima Solar with a capacity of 110 $MW_{AC,}$ initiated commercial operation in the first quarter of 2019, with an investment of approximately USD$115 million.

For the years ended December 31, 2018, 2017 and 2016, the power segment had revenues of approximately USD$308 million, USD$229 million and USD$114 million, respectively, which accounted for 23%, 19% and 15% of the Company's total consolidated revenues, and an adjusted EBITDA of approximately USD$161 million, USD$104 million and USD$23 million, respectively, which accounted for 18%, 14% and 5% of the total adjusted EBITDA for the period ended December 31, 2018, 2017 and 2016. This revenue figure does not include net equity in earnings from the joint ventures, which is accounted for using the equity method; however, the Company includes the share of the EBITDA from its joint venture in the power segment adjusted EBITDA.

Seasonality

Customer demand in both Gas and Power segments experience seasonal fluctuations. For the Gas segment, the demand for natural gas service is higher in summer and winter. In the case of the Power segment, the demand for power distribution service is higher during months with hot weather. Please refer to note 1.3. to the audited financial statements included in this Report.

Risks Relating to, and Effects of, Climate Changes

See "Risk Factors."

ii) Distribution Channels

See "Natural Gas Distribution Business."

iii) Patents, licenses, trademarks and other contracts

Intellectual Property

The Company and its subsidiaries currently hold several registered trademarks in Mexico, including the name and design logos in several classes of "IEnova", "ECOGAS", "Fundación IEnova", "IEnova Gasoductos", "IEnova infraestructura energética una empresa de Sempra Energía para México" and "IEnova Energía para México". Such trademark registrations are current and we expect they will be renewed prior to their expiration in accordance with applicable laws. In Mexico, trademark registrations can generally be renewed indefinitely every ten years as long as they are being used. To the knowledge of the Company, there are no disputes regarding the ownership of its trademarks. To the extent the Company considers any trademarks owned by its affiliates to be material to its business, it may enter into licenses with its affiliates for their use. The Company has no patents for its business activities.

iv) Main Customers

The following table includes the Company's revenue per customer. See Note 24.9.1 to the Company's audited financial statements included elsewhere in this report.

(in thousands of U.S. Dollars)		As of December 31,		
	Segment	**2018**	**2017**	**2016**
Customer 1	Gas	317,805	317,055	226,496
Customer 2	Power & Gas	218,126	142,445	—
Customer 3	Gas	171,666	168,937	40,592
Customer 4	Gas	143,026	113,086	6,143
Customer 5	Gas	123,366	114,093	30,040
Customer 6	Gas	98,435	103,043	101,998
Customer 7	Gas	84,846	87,160	88,646
Customer 8 *	Power	36,353	35,389	3,594
Customer 9	Gas	36,723	36,397	35,839
Customer 10	Power	—	—	110,576
Others **		138,209	105,300	123,165
Revenue		1,368,555	1,222,905	767,089

* See Note 12 to the Company's audited financial statements included elsewhere in this report.

** Among others, there are no customers that represent more than 10% of the Company's revenue concentration.

Each of the following customers of the Company represent more than 10% of the revenue, for one or more of the years ended December 31, 2018, 2017 and 2016: CFE, SGPM, CENAGAS, Sempra Natural Gas, Sempra Generation and Shell.

SGPM, Sempra Natural Gas and Sempra Generation are subsidiaries of Sempra Energy, the indirect controlling shareholder of the Company.

v) Legal Framework and Fiscal Situation

All the Company's activities in Mexico are governed by the Mexican Constitution and a diverse set of laws, regulations, general provisions, guidelines and official technical standards.

The Company is subject to Mexican legislation that regulates the following activities of its business:

- ***Storage***: Includes receiving, storing and delivering natural gas, LNG, LPG or other petroleum products with regard to facilities other than pipelines.
- ***Regasification***: The process through which liquid natural gas is changed to a gaseous form.
- ***Liquefaction***: The process through which gaseous natural gas is changed to a liquid form.
- ***Transportation***: Includes the construction, operation and ownership of pipeline systems to receive, transport and deliver natural gas, LPG or ethane.
- ***Distribution***: Includes the reception, transportation and delivery of natural gas for retail sale or final consumption of to end-users within a single geographical zone defined and authorized by the Energy Regulatory Commission (CRE).
- ***Marketing***: Encompasses activities related to the marketing of hydrocarbons, including the purchase and sale of natural gas and added-value brokerage or intermediary services for end-users.
- ***Exportation of Natural Gas and LNG:*** Consists of the send-out of natural gas or liquefied natural gas from Mexican territory to remain abroad either on a temporary or permanent basis.
- ***Importation of Natural Gas:*** Consists of the entry of natural gas into Mexican territory to remain there either on a temporary or permanent basis.
- ***Power Generation***: The process that transforms energy (renewable, kinetic, thermal, nuclear, among others) into electricity. The process includes the supply or sale of electrical energy to users (Federal Electricity Commission, qualified users, among others) or to the wholesale electricity market.
- ***Exports of Electricity***: The process of generating and supplying electricity to users in any foreign energy market abroad (including the United States' energy market).
- ***Imports of Electricity***: The purchase of electricity abroad (including the United States) from providers for self-supply, or the purchase of electricity from a power plant abroad, when it is interconnected to the Mexican National Grid.

Laws Applicable to Natural Gas, LPG, Ethane and Petroleum Products Activities

Article 27 of the Mexican Constitution stipulates the general principles that regulate activities that involve petroleum, natural gas and other hydrocarbons in Mexico. Historically, Article 27 prohibited the Mexican government from entering into agreements or granting concessions for hydrocarbons activities and specified that certain activities involving petroleum and other hydrocarbons were exclusively reserved for the Mexican government under a vertical integration system.

In 1995, the Mexican Congress passed a bill to allow private-sector participation in the transportation, storage, distribution and sale of natural gas and LPG in Mexico. The Natural Gas Regulations (*Reglamento de Gas Natural*) were published in 1995. The Liquefied Petroleum Gas Regulations (*Reglamento de Gas Licuado de Petróleo*) were published in 1999.

Certain provisions of the Mexican Constitution related to the hydrocarbon sector were modified in December 2013. The legal framework applicable to the upstream and midstream sectors, among others, was modified in August and October 2014 with the enactment of new laws and the issuance of regulations. This allowed the Mexican government to grant contracts to private-sector companies in the upstream sector through public tenders. These amendments also allow private-sector entities to obtain permits for the processing, refining, marketing, transporting, storing, importing and exporting hydrocarbons, including the processing, compression, liquefaction, regasification, transportation, storage, distribution, marketing and retail sale (to the public) of natural gas; the transportation, storage, distribution, marketing and retail of petroleum products, including LPG; and the transportation (through pipelines) and related storage of

petrochemicals, including ethane.

New legislation enacted in 2014, including the Hydrocarbon Law (*Ley de Hidrocarburos*) maintained the concept of state ownership of hydrocarbons located in the sub-soil of Mexican territory and opened-up the hydrocarbons sector to the participation of private companies, provided that the meet certain regulatory requirements.

In October 2014, two Hydrocarbon Law regulations were issued: (i) the Hydrocarbon Law Regulations (*Reglamento de la Ley de Hidrocarburos*) and (ii) the Regulations Relating to the Activities Specified in Title Three of Hydrocarbon Law (*Reglamento de las actividades a que se refiere el Título Tercero de la Ley de Hidrocarburos*). These regulations and the General Administrative Provisions (*Disposiciones Administrativas de Carácter General*) issued by the Energy Regulatory Commission (CRE) regulate Mexico's natural gas, LNG, LPG, petroleum product and ethane markets.

The Company's business is primarily regulated by the Regulations Relating to the Activities Specified in Title Three of the Mexican Hydrocarbon Law, which establish the following with respect to storage, transportation, distribution and marketing permits:

- requirements applicable to the rendering of the services as part of permit holders' operations, such as efficiency, frequency, safety, continuity and uniformity of supply;
- open access obligations;
- the rules applicable to the term, duration and renewal of permits;
- the rules applicable to the modification, transfer, cancellation and revocation of permits;
- the requirements to be met for the approval of permits;
- the procedures for the granting of permits;
- the rules for the provision of different services, including specific obligations of permit holders;
- the information requirements applicable to the respective activity, and
- the regulation of tariffs and the General Service Terms and Conditions (GSTC).

The Hydrocarbon Law allows private-sector companies that hold a permit granted by the Energy Regulatory Commission (CRE) for the respective activity to store, transport, distribute, market and carry out direct sales to end users of hydrocarbons, petroleum and petrochemicals, as well as to own and operate pipelines, storage, liquefaction, regasification, compression and decompression stations or terminals, and related equipment in accordance with legal, technical and economic regulations. In addition, private-sector companies may import or export hydrocarbons, petroleum and petrochemicals subject to obtaining the permit issued by the Ministry of Energy and the Ministry of Finance and Public Credit. Permits granted prior to the enactment of the Hydrocarbon Law, as is the case of several of the Company's permits, including the Service Terms and Conditions, shall remain in force for their original terms. However, in relation to the Company's operations, it has been necessary to apply for new permits, such as a natural gas marketing permit and two ethane pipeline transportation permits, which were granted by the Energy Regulatory Commission, as well as import and export permits that were also granted by the Ministry of Energy and Ministry of Finance and Public Credit, respectively. The Company has obtained the new permits required within the term stipulated by the applicable regulations.

Midstream and downstream activities (refining, logistics and sales) in the natural gas, LPG, ethane and petroleum product industries are subject to the provisions of the Hydrocarbon Law, the Energy Sector Coordinated Regulatory Agencies Law (*Ley de los Órganos Reguladores Coordinados en Materia Energética*), the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency Law (*Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), the General Hydrocarbon Regulations, the Regulations of the Activities Specified in Title Three of the Hydrocarbon Law and applicable environmental, social and safety regulations. The General Administrative Provisions (*Disposiciones Administrativas de Carácter General*), resolutions and agreements issued by the Mexican energy, social and environmental authorities, the Official Mexican Standards (*Normas Oficiales Mexicanas*) and terms and conditions set forth in the related permits also regulate the Company's activities. The Company operates in a highly regulated environment, and its profitability depends on its ability to comply with the obligations set forth in the permits, laws and regulations on a timely and efficient basis.

The construction and operation of natural gas, LNG, LPG, ethane and petroleum product storage facilities, pipelines and distribution systems require governmental permits and authorizations from Federal, local and municipal

authorities, such as the Energy Regulatory Commission, the Mexican Antitrust Commission *(COFECE*) , the Ministry of the Environment and Natural Resources (*SEMARNAT*), the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency (*ASEA*), the Ministry of Energy *(SENER*) and the Ministry of Finance and Public Credit (*SHCP*). Permits issued by the Energy Regulatory Commission *(CRE)* also impose a series of regulatory obligations and specific terms and conditions, including those called "General Terms and Conditions" (*Términos y Condiciones Generales para la Prestación del Servicio*).

Open Access

Pursuant to the Natural Gas Regulation (under which the Company obtained several of its permits but which was repealed by the Hydrocarbon Law and its Regulations), there were two types of natural gas storage and transportation permits: (i) open access (to provide services in a way similar to a utility company) and (ii) own-use (granted exclusively to end-users or a group of end-users organized in a special purpose vehicle or company). With the exception of an own-use natural gas pipeline that supplies the Termoeléctrica de Mexicali generation plant, all the Company's transportation systems -both under the former and current regulation- are open-access pipelines. Likewise, its LNG, LPG and petroleum terminals are open-access storage facilities, with the exception of the liquefaction plant in development by the Company, which already has the Energy Regulatory Commission permit.

All the Company's open-access facilities are required to grant non-discriminatory access to any user that requests the service, provided there is available capacity in the system/facility and it is technically feasible and economically viable, as indicated in the General Administrative Provisions issued by the Energy Regulatory Commission applicable to storage and transportation activities. Open-access permit-holders are strictly regulated and supervised by the Energy Regulatory Commission. The Hydrocarbon Law stipulates that the permits issued for the own-use natural gas pipeline that supplies the Termoeléctrica de Mexicali generation plant prior to the enactment of the law will remain in force for their original term.

Permit holders subject to open-access obligations that have available capacity to be used permanently are required to conduct open seasons to allocate such capacity to third parties. Available capacity is deemed to exist when (1) a new system is developed, (2) the system is extended or enhanced, (3) existing capacity has not been allocated through a service contract, or having been allocated under a service agreement, it is not being used, or (4) the user assigns or wishes to assign its firm-base capacity permanently, totally or partially, through the permit-holder.

In August 2018, the Energy Regulatory Commission amended the open-access provisions applicable to natural gas transportation and storage. Among other things, those provisions, as modified, provide for the following:

i. Permit holders may assign capacity directly to those potential users that contribute with financing to the permit holder's infrastructure by entering into investment agreements ("Anchor User"). Permit holders shall respect the previously-agreed conditions under said agreement and the capacity shall not be included in the open-season to be held. If there is third-party interest in contracting additional capacity as a result of the open season, the permit holder shall modify the system to resize the capacity and consider the needs declared, provided doing so is technically feasible and financially viable;

ii. Users who wish to assign capacity permanently to another party that belongs to the same economic stakeholder group shall do so through the permit holder and said permit holder shall then hold an open season.

iii. The permit holder may only allocate capacity through open seasons or via the electronic bulletin;

iv. The secondary market assumptions for total, partial, permanent or temporary capacity assignments are established for the secondary market.

Tariffs

Certain midstream and downstream natural gas, LNG, LPG and petroleum product services (refining, logistics and sales) are subject to "maximum regulated tariffs" set by the Energy Regulatory Commission. Permit holders may grant discounts or agree conventional tariffs subject to general provisions issued by the Energy Regulatory Commission. These agreements must be reported to the Energy Regulatory Commission and published on the permit holder's electronic bulletin, which will allow public access to the agreements.

Marketing and Cross Participation Restrictions

The Hydrocarbon Law establishes that an Energy Regulatory Commission permit is required to market natural gas and LNG, among other products. Therefore, the Company's subsidiary, IEnova Marketing, requires a permit to conduct its marketing activities. Pursuant to the Hydrocarbon Law and other applicable laws, IEnova Marketing has obtained the permits required to sell natural gas. Vendor companies are required to contract other permit holders' transportation, distribution or storage services, either directly or through third parties. Additionally, the marketing activity requires other permits, such as for imports and exports, granted by the General Customs Administration and the Ministry of Energy, respectively. Permits issued by the General Customs Administration are valid for three years, whereas those issued by the Ministry of Energy last from one to twenty years. In addition, with certain exceptions set forth in the law, storage and open-access transportation permit holders are generally prohibited from selling natural gas stored in their facilities or transported through their systems, except in emergencies.

The Hydrocarbon Law stipulates cross-participation restrictions applicable to open-access transportation or storage vendors and permit-holders. However, the Energy Regulatory Commission may authorize cross-participation with prior approval of the Federal Economic Competition Commission, provided that such cross-participation does not affect competition, efficiency or effective open access in the market. These requirements may be met by guaranteeing independent operations or by establishing legal and corporate mechanisms to prevent intervention in operations and management. According to the applicable rules, the following may be required: (1) the strict legal segregation of authorized activities or a functional, operational and accounting separation, (2) limitation to participation in a company's capital stock, (3) maximum participation limitations for economic agents engaged in the sales market, and (4) the reservation of capacity in storage facilities and pipelines. Some of the Company's assets are subject to cross-participation regulation by the Energy Regulatory Commission; therefore, the due authorizations have been obtained for such assets and the applicable regulations have been complied with.

General Storage Terms and Conditions (GSTC)

The General LNG Storage Terms and Conditions, the General LPG Storage Terms and Conditions, and the General Petroleum Products Storage Terms and Conditions, respectively, apply to all the Company's service agreements for the reception, storage and delivery of those products. The General Storage Terms and Conditions are reported to the Energy Regulatory Commission and only LNG GSTC are approved by that authority. The GSTC may be amended from time to time at the request of the Company in order to meet market conditions, comply with the applicable legal provisions and any administrative regulations that the Energy Regulatory Commission may issue. Based on the foregoing, certain provisions of the GSTC may vary if they are amended from time to time, subject to notification, and if applicable, the approval of the General LNG Service Terms and Conditions by the Energy Regulatory Commission.

Also, although the GSTC of each of the Company's storage permits are substantially similar, there may be certain provisions that vary from permit to permit. The main provisions common to the GSTC of each of the Company's storage permits are summarized as follows:

Services. The Company is required to render storage services to its customers by receiving LNG, LPG or petroleum products at its storage facilities, rendering storage services and delivering the resulting product to its customers at the authorized point and means of delivery.

Access to available storage capacity. The Company is required to provide customers with reasonable access to the available storage capacity at its LNG, LPG or petroleum product terminals not yet contracted pursuant to a Firm Base Storage Service agreement. Customers may access such capacity by entering into the respective service agreement, provided that they have the necessary connection to the facilities at the delivery points specified in the service agreement and that the permit holder meets the open-access requirements set forth in the regulation. In addition, customers must provide a financial guarantee to ensure compliance with their obligations under the services agreements and the GSTC.

Firm Base Storage Service. Firm base storage services consist of storing LNG, LPG or petroleum products delivered at the reception point up to the customer's maximum storage quantity specified in the respective service agreement and delivering natural gas or LPG at the delivery point at any time in accordance with the services agreement. The Company's firm base storage services may not be subject to reductions or interruptions, with the exceptions specified in the General LNG, LPG or Petroleum Products GSTC and the respective service agreement.

Interruptible Base Storage Service (LNG). Interruptible base storage services consist of storing LNG up to the maximum storage quantity specified in the respective service agreement. Customers shall be entitled to request this service

at any time during the term of the service agreement. However, interruptible base storage services are subject to the available capacity remaining after performing the obligations of the firm base storage services.

Common-Use (LPG and Petroleum Products) Storage Services. Common-use storage services consist of storing LPG and Petroleum Products provided there is available capacity of firm base storage services, even though having been contracted, have not been rated. In this service mode, the Company may request the customer to remove the Product stored in shorter delivery periods. However, common-use storage services may only be rendered provided they do not interfere with the obligations of the firm base storage services.

Interruption of Services. Customers are not entitled to receive storage services if they are in breach of any of their storage services payment obligations, subject to an exception for customers that provide a satisfactory guarantee to cover the overdue payment, with the Company's consent.

Creditworthiness. In order to be eligible to receive the LNG, LPG or petroleum products storage services, customers must be solvent or provide evidence of creditworthiness within the 30 days following the Company's request. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee to cover their obligations under the LNG, LPG or Petroleum Products GSTC.

Suspension, Reduction or Modification of the Storage Service. If customers fail to comply with their obligations under their services agreements, the Company may suspend LNG, LPG or Petroleum Products storage services. Subject to a grace period, the Company may also terminate the respective service agreement. The service agreement will terminate automatically in the event of customer insolvency of bankruptcy, and the Company shall be entitled to enforce any financial guarantee granted by such customer. If the Company suspend LNG, LPG or Petroleum Products storage services without just cause, it will grant a credit equal to five times the LNG or LPG service tariff that would have been available to said customer during the suspension. This shall be calculated based on the LNG or LPG GSTC, as applicable. In the case of Petroleum Products storage, on the issuance of the respective invoice, the Company shall credit the customer an amount equivalent to the amount that said customer would have paid for the rendering of the Service.

Miscellaneous Purchases and Sales. The Company is not obliged to enter into a service agreement at a tariff lower than the regulated tariff.

Payment. If customers breach their payment obligations, the overdue amounts shall accrue interest at a daily rate calculated pursuant to the LNG, LPG or Petroleum Products GSTC. Failure to pay within a certain period of time provided in the LNG, LPG or Petroleum Products GSTC may result in suspension of the service or the rescission of the respective agreement.

Liability, Guarantees and Assignment. The Company is deemed to be in control of and liable for any LNG, LPG or Petroleum Products stored from the time of receipt until delivery to customers. Customers are deemed to be in control of and liable for the LNG, LPG or Petroleum Products prior to reception by Company or after delivery thereof.

Any of the parties may assign or encumber storage service agreements with the prior written consent of the other party and in accordance with the GSTC and the applicable regulation. Customers are deemed to have unconditionally accepted the assignment of the Company's rights and obligations to the respective creditors in order to secure financing and to any entity that acquires the LNG, LPG or Petroleum Products terminals, subject to the authorization of the Energy Regulatory Commission.

The Company's liability to customers is limited to damages incurred directly as a result of its failure to perform its obligations under a storage services agreement (suspension or interruption of delivery of LNG, LPG or Petroleum Products at the delivery point). Customers must ensure that their vessels and tanker trucks are fully insured (including environmental insurance) and are operated and maintained in accordance with applicable national and international standards.

Force Majeure. An event of Force Majeure is any incident, either foreseeable or unforeseeable but unavoidable, that obstructs or prevents the affected party from performing its obligations under a storage services agreement. On receiving a notification that informs the other party of such conditions (except any prior payment obligation), the obligations of both parties shall be suspended for the duration of the event of Force Majeure. Under no circumstances shall financial and/or technical difficulties be considered events of Force Majeure. If an event of Force Majeure affects the Company's terminal, its customers' obligations to make storage capacity payments under the services agreement will be suspended or, if applicable, reduced pro-rata for the level of storage services provided during such event. The Company may also suspend,

restrict or modify deliveries of gas to customers to the extent affected by such event.

In the event of a suspension or reduction of LNG, LPG or Petroleum Products storage services unrelated to the Company's facilities, customers must continue to pay any amount owed by them at the time of the event of Force Majeure.

LNG Terminal Operating Gas. The Company requires a certain amount of natural gas to operate the LNG terminal and to render the storage services and is entitled to retain and use its customers' available stored LNG for such purposes at no cost or charge.

Dispute Resolution. Any dispute will be resolved by arbitration.

Assignment of User's Capacity. Any customer may assign either temporarily or permanently, all or part of its supplied quantity of natural gas, LPG or Petroleum Products storage capacity to another customer on prior notice to the Company. Any permanent transfer of contractual rights must be approved by the Company and shall be subject to the creditworthiness requirements, as well as the GSTC and the applicable regulations. Natural gas users who wish to assign capacity permanently to another party that belongs to the same economic stakeholder group shall do so through the permit holder, which in turn shall hold an open season.

Connection Policy. The Company has an obligation to allow any entity to connect to its LNG, LPG or Petroleum Products terminals and related pipelines, subject to certain conditions of available capacity and technical viability, provided that the party seeking the connection bears all connection and other costs.

General Natural Gas, LPG and Ethane Transportation Terms and Conditions (GTTC)

The Natural Gas, LPG and Ethane and Liquefied Ethane GTTC regulate transportation services agreements signed among transportation systems with the users and form an integral part of such agreements. The GTTC of each transportation permit are approved by and reported to the Energy Regulatory Commission for each transportation permit. The GTTC may be amended from time to time at the request of the Company in order to meet market conditions, comply with the applicable legal provisions and any new administrative regulations that the Energy Regulatory Commission may issue. Thus, certain provisions of the GTTC may vary if the terms and conditions are amended from time to time, subject to the Energy Regulatory Commission's prior approval.

Further, although the GTTC for each of the Company's transportation permits are substantially similar, there may be certain provisions that vary from permit to permit and their related agreements. Below is a summary of the main provisions that are common to the GTTC for each of the Company's transportation permits and their related agreements:

Term. The term of the GTTC is the same as the term of the respective permit granted by the Energy Regulatory Commission.

Increase of Capacity. In the event that requests for transportation services exceed the capacity available, the Company must build additional facilities to increase the available capacity of its pipelines in order to meet such requests, provided that doing so is technically feasible and economically viable and it holds an open-season to assign the available capacity.

Transportation Service Agreement (TSAs). The Company may only render transportation services to customers that have entered into Transportation Service Agreements (TSAs) based on the forms established by the GTTC and once the customer has met all the stipulated requirements. The Company enters into agreements following a full analysis of the service requests received from potential customers.

Orders. During the term of a transportation service agreement, the Company's customers prepare and submit orders containing the information about the daily amount of product to be transported, the reception and delivery points (which must have been previously approved) and the start and end dates of the order.

Creditworthiness. Under the GTTC, the Company is not required to render transportation services to customers with outstanding balances with the Company or impaired creditworthiness. If sufficient evidence of creditworthiness cannot be provided, customers must provide a financial guarantee to secure their obligations under the GTTC.

Secondary Market. Firm-base service users may assign all or part of their capacity contracted with the permit holder to any party interested in obtaining it, either temporarily or permanently, provided that the assignee meets the

requirements of the applicable GTTC, including providing the required guarantee. In the case of natural gas, users who wish to assign capacity permanently to another party that belongs to the same economic stakeholder group shall do so through the permit holder, which in turn shall hold an open season.

Payments. If customers breach their payment obligations, the overdue amounts shall accrue interest at a daily rate. Failure to pay within the grace period, which pursuant to each of the GTTC may vary from ten to ninety days, may result in suspension of the service and advanced termination of the agreement.

Interruption of Services. Most of the GTTC specifically provide that the Company is not liable for interruptions of transportation services if there is an event of Force Majeure, in the event of failure of a customer's facilities, if an interruption is required for the maintenance or adjustment of its facilities, or in case of breach of the obligations by the customer. Under some of the GTTC and under certain circumstances, customers are required to pay the respective capacity tariff during the period of the interruption. A service interruption, other than as described above, requires the Company to provide a bonus to the affected customer equivalent to five times the amount of product that would have been available during the period of interruption as if such interruption had not occurred.

In the event of an interruption attributable to an event of Force Majeure that lasts more than five business days, the Company must submit a corrective plan to the Energy Regulatory Commission.

An event of Force Majeure is any foreseeable or unforeseeable but unavoidable occurrence that obstructs or prevents the affected party from performing its obligations under a transportation services agreement. After a certain time, which may vary in each of the GTTC, depending on the result of the event of Force Majeure, the affected party may terminate the services agreement.

Indemnification. Customers must indemnify the Company and its officers, agents, employees and contractors for any losses or damages incurred in connection with any breach of customer's obligations under their transportation services agreements.

Dispute Resolution. Any disputes will be resolved based on the agreements reached by the parties and may be through arbitration in accordance with the Constitutional Coordinated Energy Regulators' Law or be subject to the jurisdiction of the Federal laws and courts in Mexico. If a customer is deemed a consumer for purposes of the Mexican Federal Consumer Protection Law, any disputes will be resolved in accordance with such law.

Tariffs. The Company is allowed to negotiate tariffs lower than those provided in the respective tariff list approved by the Energy Regulatory Commission. In any case, the tariff for the firm- and interruptible-base services may be the same as or lower than the tariff approved by the Energy Regulatory Commission. The Company shall be required to publish any regulated and approved tariff in the Federal Official Gazette and in the official gazettes of the states in which the Company renders transportation services.

Natural Gas Distribution General Terms and Conditions

The GTTC included in the Company's natural gas distribution permits regulate the reception, delivery and marketing of natural gas. The GTTC are approved by and reported to the Energy Regulatory Commission for each natural gas distribution permit. The GTTC may be amended from time to time at the request of the Company in order to meet market conditions, comply with applicable legal provisions and any new administrative regulations that the Energy Regulatory Commission may issue. Thus, certain provisions of the GTTC may vary if the terms and conditions are amended from time to time, subject to the Energy Regulatory Commission.

Furthermore, although the GTTC of each of the Company's gas distribution permits are substantially similar, there may be certain provisions that vary between each permit. The main provisions common to the GTTC of each of the Company's natural gas distribution permits are summarized as follows:

Services. The Company provides simple-distribution and distribution-with-marketing of natural gas services by delivering natural gas to its customers at different delivery points in its pipeline system. In the event of a failure or deficiency in the Company's system that prevent deliveries of natural gas to end-users, the Company shall compensate it with a specific quantity of natural gas that would have been available to said user had the interruption not occurred. In February 2016, the Energy Regulatory Commission approved low natural gas consumption end-user protection provisions. Said provisions

prohibit distributors from rendering natural gas sales services to high natural gas consumption end-users beginning in March 2018 (users with an annual consumption or more than 5000 GJ).

Interconnection. After the expiration of the exclusivity periods granted to the Company by the Energy Regulatory Commission for each geographic zone, the Company must allow other permit holders to connect to its pipeline system provided that it has sufficient capacity available and if such connection is technically and economically viable. All connection tariffs shall by the Company and the other permit holders. In January 2018, the Energy Regulatory Commission approved an agreement that specified the entire Mexican territory as a Single Geographical Zone for the purposes of natural gas distribution. When this agreement took effect, the Geographical Zone Determination Department, which requested specific geographical zones to be determined prior to granted distribution permits, was eliminated.

Tariffs. The Company is allowed to negotiate tariffs lower than those provided in the respective tariffs list approved by the Energy Regulatory Commission. The Company is required to publish all regulated tariffs annually in the Federal Official Gazette and in the Official Gazettes of the states in which the Company renders distribution services.

System Capacity. The Company is required to use the "Stoner Workstation" simulation model to calculate the maximum daily use of its distribution system. This model is the international industry standard used to calculate pipeline flows. If the capacity requested exceeds the Company's available capacity, its residential and commercial services shall take priority, and the Company must consult with its industrial customers regarding the reduction or interruption of their service.

Credit, Deposits and Guarantees. The Company's customers must comply with at least one of the following creditworthiness requirements: (1) make a cash deposit in the Company's favor in the amount equivalent to three times the estimated monthly consumption for such customer; (2) obtain a guarantor, a letter of credit or a bond to guarantee the payment of invoices; or (3) pay all invoices promptly for twelve consecutive months.

Safety Obligations. If an event occurs that may cause a public health and safety risk, the Company must inform the Energy Regulatory Commission, the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency and the appropriate local authorities immediately of the measures taken to overcome the problem. The Company is also required to use equipment, materials and systems that comply with the specifications provided in the Official Mexican Standards, or in the absence thereof, with international industry specifications. The Company is also required to train its personnel to prevent and deal with accidents, as well as to provide any assistance needed to government authorities in case of emergencies or disasters. In addition, the Company must acquire and maintain the insurance required by the respective permits to cover any liabilities that may arise.

Liabilities. The Company shall be liable for any damages that may be caused while rendering the services up to the delivery point, except in case of willful misconduct or negligence of the injured party. After the delivery point, the customers will be liable for any damages incurred by said customers or any third parties.

Interruption of Services. The Company may interrupt the services without any liability in the following cases: (1) if the Company determines that a customer's system or equipment represents a significant hazard or risk or (2) by written order issued by a jurisdictional authority stating that the customer's system represents a hazard or risk or does not comply with applicable legal provisions. The Company shall also be entitled to suspend service if customers fail to pay more than one past-due invoice.

In addition, the Company shall not be liable for the interruption of services as a consequence of (1) unforeseen circumstances or force majeure event; (2) failures of customer systems due to operator error; (3) maintenance, extensions or modifications to the systems, if the Company advises customers in advance; or (4) breach by customers of their obligations under the services agreements.

Rescission. Any customer may rescind or terminate a service agreement with the Company with at least two days' advance notice given prior to the termination date.

Dispute Resolution. Disputes that arise in connection with the services shall be resolved through arbitration. Disputes in which the customer is considered to be a consumer in terms of the Federal Consumer Protection Law (*Ley Federal de Protección al Consumidor*) shall be resolved in accordance with that law.

Official Mexican Standards, Directives, Resolutions and General Provisions

In addition to the aforementioned laws and regulations, the legal framework that regulates the Company's activities also includes (1) the Official Mexican Standards issued by the Ministry of Energy, the Energy Regulatory Commission and the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency on the technical matters of its business, such as product quality and the technical specifications of the design, construction, safety, operation and maintenance of its transportation, storage and distribution systems and facilities, (2) the Directives issued by the Energy Regulatory Commission that regulate the economic matters of the Company's business, such as prices, tariffs, accounting and insurance, (3) the environmental protection and industrial safety Agreements, Resolutions and General Provisions issued by Energy Regulatory Commission, the General Energy Sector Social Impact Evaluation Provisions issued by the Ministry of Energy and the General Environmental Protection Provisions issued by the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency, and (4) the public policy documents issued by the Ministry of Energy regarding any of the hydrocarbons sector activities in which the Company participates.

Other Authorizations

There are several other permits and/or licenses that may be required by the three different levels of government (Municipal, State or Federal) for the development, construction and operation of hydrocarbon systems. These include environmental, industrial safety and operating, social, land-use permits and construction permits, as well as concessions to cross over and/or through Federal areas such as rivers, streams and maritime zones, among others.

Mexican Antitrust Commission (COFECE)

The Mexican Antitrust Commission (*COFECE*) is an autonomous body of the Mexican government that has authority over natural gas, LPG, petroleum products and ethane activities in terms of the prevention of economic monopolies and concentrations. With the approval of COFECE, the Energy Regulatory Commission may issue new regulations to develop competitive markets in the hydrocarbons sector, which may include grouping restrictions, stockholder limitations, and limits on economic operators' participations in commercial activities. The favorable opinion of the COFECE is also required to participate in tenders called by Port Administrations, in which the Company has an interest in building and operating petroleum products storage terminals.

Ministry of Communications and Transportation (*SCT*)

The LNG Terminal and some petroleum products storage terminals require permits and/or authorizations from the Ministry of Communications and Transportation (*SCT*). Marine terminals require public asset concessions that include the construction, operation and use of terminals, marine and port facilities, as well as authorizations for marine or dredging works. On-shore terminals that have railroad facilities require the approval of the executive project to build private lines, as well as permits for auxiliary services, such as Liquid Loading and Transfer Terminals.

Ministry of the Navy (*Secretaría de Marina)*

Marine terminals, such as LNG or petroleum product storage, which due to their construction and/or operation, need to discharge liquids into Mexican marine zones, shall obtain authorization from the Ministry of the Navy because the Discharges Law and its Regulations stipulate a series of provisions to ensure the protection of the marine environment.

National Natural Gas Control Center (CENAGAS)

CENAGAS is a decentralized public body of the Mexican Federal government. CENAGAS's main responsibility is to manage and operate the National Integrated Natural Gas Transportation System, which was previously managed by the semi-state company Pemex Gas y Petroquímica Básica. Some of its assets are part of the National Integrated Natural Gas Transportation System.

In March 2018, the Ministry of Energy (*SENER*) issued the Public Natural Gas Storage Policy, which stipulates the CENAGAS's obligation to maintain a minimum of 5 days of natural gas strategic inventory (45 billion cubic feet) by 2026. It is responsible for coordinating the development of the storage infrastructure and approving strategic projects through open seasons. The Ministry of Energy also established that beginning in October 2018, transportation and storage permit holders are obligated to submit weekly reports of natural gas consumption and inventories to the Energy Regulatory Commission.

Other Significant Provisions

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

In May 2017, provisions that require assignees, contractors and permit holders to provide information on domestic content in the activities they perform in the hydrocarbons industry were issued. Pursuant to these provisions, beginning April 2019, hydrocarbon, petroleum and petrochemical product storage, distribution, transportation and sales permit holders are required to inform the Ministry of the Economy, every two weeks, of the percentages of domestic and foreign content of: (i) final assets acquired; (ii) services contracted; (iii) labor contracted; (iv) training contracted; (v) technology transfer expenses, and (vi) expenses incurred in the construction of corporate infrastructure.

In December 2017, the Ministry of Energy (*SENER*) published in Federal Official Gazette the Public Policy on the Minimum Storage of Petroleum Products (except LPG), which establishes the petroleum product vendors' and distributors' obligations to maintain a minimum of five days' sales as a strategic inventory of each of the petroleum products sold beginning 2020. Said obligations shall increase to eight to 11 days for 2022 and 2025, respectively. At least 50% of the minimum inventories shall be stored at the terminals that usually supply service stations by tanker trucks. The Public Policy also establishes that from April 2018, the obligation of permit holders throughout the value chain (storage, sales, distribution, dispatch to the public, refining) to submit weekly reports of production, imports, exports and sales by product to the Energy Regulatory Commission.

Article 28 of the Federal Fiscal Code was amended in June 2018. As a result, hydrocarbons and petroleum product storage, distribution, transportation and sales permit holders must have IT equipment and programs to keep volumetric controls, as well as opinions issued by laboratories authorized by the Tax Administration Service.

Electricity Generation and Export

As a result of the amendment of the Mexican Constitution in December 2013 and the enactment of the Law of Electric Industry, which repealed and replaced the previous Public Electricity Service Law, private companies are now permitted to obtain permits to generate and sell electricity to basic-supply users and qualified users, to sell electricity directly to the wholesale electricity market, and to participate in the construction, operation and administration of electricity generation plants. The Mexican State remains responsible for the transmission and distribution of electricity through the Energy Regulatory Commission. However, it may enter into agreements with private companies engaged in such activities, including agreements for the financing, installation, procurement, operation and expansion of electrical grid infrastructure. The planning and control of the grid is under the exclusive authority of the Federal Government and is conducted by the National Energy Control Center (*CENACE*). The CENACE is a decentralized public body responsible for managing the national electrical grid by acting as an independent operator of the system for the wholesale electricity market.

In terms of the Electricity Market Guidelines, private electricity generators may participate in a new open wholesale market operated by the CENACE by selling energy and products related to Suppliers, Vendors and Qualified Users- Market Participants (i.e., companies registered with the Energy Regulatory Commission and that have an annual demand of at least 5 MW and supplies of at least 20 KWh).

Pursuant to the Law of Electricity Industry, generating plants with installed capacities of 0.5 MW or more, as well as those represented by a generator in the wholesale electricity market (regardless of installed capacity) require an electricity generation permit. Generating plants with installed capacities of less than 0.5 MW do not require a permit, but they do need a supplier to act on their behalf to sell their power and related products in the wholesale electricity market.

Permits granted prior to the enactment of the Law of Electric Industry (such as the export permit of the Termoeléctrica de Mexicali generation plant, issued in 2001, the export permit of the Energía Sierra Juárez Wind Park, issued in 2013, and the self-supply permits of the Ventika I and Ventika II wind parks and the Don Diego Solar park) shall remain valid in the terms under which they were granted and the rights of the permit holders will not be affected by the new laws and regulations.

The Law of Energy Transition was published in December 2015. This new law, which repeals a former renewable energy statute, intends to regulate the use of sustainable energy and the obligations regarding clean energy and reduction of pollutant atmospheric emissions in the electricity industry. As a consequence of this Law, the Mexican Government must implement strategies and programs to achieve specific clean energy targets. The targets currently consist of generating at least 25% of electricity in Mexico from clean sources by 2018, 30% by 2021 and 35% by 2024. The national targets set

by the Law of Energy Transition will be achieved by various mechanisms, including voluntary agreements by and between Mexican companies and the Ministry of Energy, the granting of voluntarily certification and the obligation mentioned previously to use clean energy and acquire clean energy certificates.

Based on the foregoing, certain obligations to use clean energy (to reduce atmospheric emissions) apply to electricity market participants. These participants include Suppliers, Qualified Users and Basic Users. Beginning in 2018, compliance with these obligations shall be accredited with clean energy certificates based on the proportion of real energy consumption established each year by the Ministry of Energy. The requirement is 5% in 2018, 5.8% in 2019, 7.4% in 2020, 10.9% in 2021 and 13.9% in 2022.

Beginning in 2019, the Company will be in a position to issue Clean Energy Certificates (CECs). Electricity generators shall be entitled to receive one CEC per MWh generated by clean energy plants (wind and solar plants, geo-thermal energy projects and efficient co-generation plants). These CECs shall be negotiable under long-term coverage agreements in the wholesale electricity market or through private coverage agreements signed between market participants. At the date of this Report, Pima already holds certification as a Clean Plant from the Energy Regulatory Commission, which will enable it to obtain CECs in 2020 for the power generated in 2019.

As plants interconnected to the grid controlled by the California Independent System Operator, the Termoeléctrica de Mexicali power generation plant and the Energía Sierra Juárez wind park are subject to the electric reliability standards enacted by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council pursuant to Section 215 of the Federal Power Act.

The United States' electricity services provisions apply to the sales of electricity of the Termoeléctrica de Mexicali power generation plant and the Energía Sierra Juárez wind park to the United States. A company engaged in the wholesale sale of electricity for resale in interstate commerce is subject to regulation under the Federal Power Act by the U.S. Federal Energy Regulatory Commission, or FERC. The FERC provisions under the United States' Federal Power Act includes regulations to set the tariffs, terms and conditions under which electricity generators may to sell electricity wholesale, as well as other current provisions on the requirements to file quarterly electronic reports, periodic market power reports, and if an issuer or an affiliate acquires ownership or control of additional energy assets, to notify FERC of these acquisitions, and to comply with applicable FERC requirements, including those that regulate securities issuances, transfers of facilities under ERC jurisdiction, reliability standards, market behavior, and handling and accounting requirements.

The Termoeléctrica de Mexicali generating plant and the Energía Sierra Juárez wind park are subject to the U.S. Public Utility Holding Company Act of 2005, known as the PUHCA. Pursuant to the PUHCA, a "holding company" is any company, trust, or organized group of persons that directly or indirectly owns or controls 10% or more of the outstanding voting rights in a "public-utility company" or is a company that is a "holding company" of a public-utility company. Unless it qualifies for an exemption or obtains a waiver from the FERC, a holding company is subject to certain regulations that grant the FERC access to its books and records relating to transactions with affiliated public utility companies or "natural gas companies," as defined in the PUHCA, and the FERC regulation of certain affiliates' transactions and certain disclosure, accounting and cost-allocation matters. In some cases, state regulatory commissions also have access to the books and records of holding companies or public-utility companies that are not exempt from the PUHCA. The FERC regulations exempt holding companies solely due to their direct or indirect ownership of (1) "qualifying facilities" under the Public Utility Regulatory Policies Act of 1978, (2) Exempt Wholesale Generators or EWGs (as defined in the PUHCA), or (3) "foreign utility companies," as defined in the PUHCA. In addition, the FERC regulations stipulated that an EWG is exempt from FERC regulation under the PUHCA, with the exception of the procedures to obtain EWG status. In order to be an EWG, a project company must be exclusively engaged in owning or operating, or in both owning and operating, an "eligible facility" and sell wholesale electricity. An "eligible facility" is a generation facility used exclusively for the sale of wholesale electricity.

Coordinated Energy Regulators' Law

In addition to the Hydrocarbon Law and the Law of Electricity Industry, the Coordinated Energy Regulators' Law stipulates the authorities, structure and internal organization of the Energy Regulatory Commission. The Energy Regulatory Commission is a Mexican government body that has technical, operating and management autonomy, and is the sole body responsible for granting midstream and downstream (refining, logistics and sales) energy permits to participants in the natural gas, LPG, LNG, petroleum and petrochemical product sectors in Mexico. The Energy Regulatory Commission is also responsible for granting permits to electricity generators and suppliers, and electricity import and export authorizations, keeping records of qualified users, clean energy certificates, and for supervising, monitoring and inspecting the activities of said generators, suppliers and users. The Energy Regulatory Commission is the Company's main supervising authority.

Pursuant to the Coordinated Energy Regulators' Law, the Energy Regulatory Commission has broad powers and authority to regulate natural gas, LPG, LNG, petroleum products and ethane storage, regasification, transportation, distribution, processing, liquefaction, compression, decompression, marketing, import and export activities. This remit includes the approval and issuance of the GSTC and GTTC that govern the services provided by the public and private sectors and the issuance of guidelines to calculate the tariffs applicable to such services. The Energy Regulatory Commission also has the authority to oversee the operations of the wholesale electricity market and to issue regulations and provisions to foster the generation and use of clean energy.

General Administrative Responsibilities Law

The legal framework that created Mexico's National Anti-Corruption System was published in the Federal Official Gazette on July 18, 2016. This new legal framework implements the 2015 Constitutional reform on anti-corruption matters and is comprised of several secondary laws, including the General Administrative Responsibilities Law. Although it was published in the Official Gazette on July 18, 2016, the General Administrative Responsibilities Law took effect on July 19, 2017.

In terms of companies, the aforementioned law regulates administrative breaches that may be committed by individuals who act on their behalf or in their representation and intend to gain benefits for these companies through their conduct. In this vein, this Law contemplates that companies must have a policy of integrity as a mechanism to prevent said conduct related corruption, which must consist of several elements, such as:

(i) An organization and procedures manual to demarcate the functions and responsibilities of each of its departments and clearly specifies the different chains of command and leadership throughout the entire structure.
(ii) A code of conduct duly published and instilled among all members of the organization.
(iii) Adequate and efficient control, oversight and auditing systems.
(iv) Adequate reporting and disciplinary processes.
(v) Adequate training and instruction systems and processes.
(vi) Human resources policies that prevent people that generate a risk to the Company's integrity from joining it.
(vii) Mechanisms that ensure the transparency and disclosure of its interests at all times.

The General Administrative Responsibilities Law also sets forth respective provisions and guidelines to investigate and sanction companies for committing administrative breaches in relation to the undue participation in administrative procedures, influence peddling, bribery, misappropriation of public funds, the hiring of ex-civil servants, collusion in public tenders (including procedures called by foreign entities), and the use of false information to apply for an administrative permit, authorization or concession, among others.

Based on the foregoing, the Company is subject to the General Administrative Responsibilities Law with respect to any activities that require the granting of a permit or a concession, public procurement processes, and/or any other administrative procedure conducted before a governmental entity.

The General Administrative Responsibilities Law establishes administrative procedures for the investigation of administrative liabilities. Pursuant to such law, the Civil Service Ministry (*Secretaría de la Función Pública*) of the Federal Government and the State Governments' Ministries shall be responsible for investigating, substantiating and sanctioning minor offenses, whereas the Federal Audit Office and the local audit offices shall be responsible for investigating and substantiating the administrative procedures of offenses deemed as severe.

Administrative breaches committed by private parties will be subject to jurisdiction of the Federal Administrative Justice Court, which now has a specialized chamber to process severe corruption actions, and is authorized to impose the respective sanctions.

The General Administrative Responsibilities Law provides for the following in terms of the extent of the sanctions that may be imposed on private companies for committing administrative breaches related to corruption: (i) fines up to twice the amount obtained by the company from any unlawful act or from 1,000 to 1,500,000 times the unit of measure and restatement; (ii) disqualification from participating in any public procurement procedure for at least 3 months and up to 10 years; (iii) suspension of all the private company's commercial activities for at least 3 months and up to 10 years; (iv) dissolution of the company and (v) compensation for the damage caused to the Federal Public Treasury and/or Federal,

Local or Municipal entities.

Law for the Protection of Personal Data

The Company, and in particular the ECOGAS distribution system, is subject to the provisions of the Law for the Protection of Personal Data that took effect in Mexico on July 6, 2010. The Law for the Protection of Personal Data is applicable to individuals or private companies that process Mexican citizens' personal data.

Pursuant to the Law for the Protection of Personal Data, the processing and transfer of personal data requires the prior consent of the owner of the data. Consent can be obtained by a document referred to in the Law as a "Privacy Notice". This notice informs the owner about which personal data is being collected, the purpose of the use of the personal data, any intended transfers and the data owner's rights of access, rectification, and cancellation or to oppose the processing of the personal data. A data owner is deemed to grant consent for the use of the personal data if no opposition to the privacy notice is declared. The privacy notice can be delivered through printed, digital, visual, electronic, audible or any other means. Pursuant to the Law for the Protection of Personal Data, data owners are entitled to revoke their consent at any time. The Law for the Protection of Personal Data provides certain requirements for the transfer of personal data to third parties and certain exceptions to such requirements in which the transfer of information is permitted.

Ports Law

As holders of a concession for the use and occupation of a federal maritime zone for the construction and operation of a maritime terminal for its LNG terminal, including a dry dock and ancillary maritime infrastructure, as well as the proposed construction of new petroleum products terminals in the ports of Veracruz and Topolobampo, , as well as in Ensenada, Baja California and Manzanillo, Colima, the Company is subject to the Mexican Ports Law (*Ley de Puertos*) and its Regulations and the jurisdiction of the federal government through the Mexican Ministry of Communications and Transportation, as well as and the Integral Port Authorities of Veracruz, Topolobampo and Manzanillo, for the respective facilities.

Pursuant to the Ports Law, the construction and operation of maritime infrastructure, as well as dredging, require specific authorizations from the Ministry of Communications and Transportation. Likewise, the use of Federal maritime zones requires special authorizations, known as concessions, which are exclusive to Mexican companies. Furthermore, the construction of infrastructure on the sea bed requires authorization from the Ministry of the Navy.

Concessions may be granted for up to 50 years, depending on the characteristics and investment of the project in question, and may be renewed for the same period as originally granted. A concession may be terminated by the Ministry of Communications and Transportation based on certain reasons set forth in the Ports Law, including (1) termination of the purpose for which the concession was granted, (2) the bankruptcy or liquidation of the permit holder, or (3) amortization. In addition, the Company's concessions may be revoked in certain circumstances, including breach of its obligations under the permits, or if the Company experiences partial or total interruption in the operation of the system or facility without just cause.

Railroad Service Regulatory Law

Railroad facilities used for the reception and/or delivery of petroleum products at the Company's storage terminals require permits to be obtained for the construction of railroad tracks, as the internal tracks of the terminal are interconnected with the general communication route. Pursuant to the provisions of said Law, the loading and/or unloading of petroleum products onto/from tanker trucks also require permits to be obtained for the rendering of auxiliary services, such as liquids loading and transfer terminals.

The Railroad Service Regulatory Law and the Railroad Service Regulations establish the conditions for the approval and obtainment of the permits and concessions necessary for the construction and operation of said facilities, as well as for the rendering of auxiliary services related to the railroad network. These permits and concessions are granted the Ministry of Communications and Transportation.

Constitutional Amendments to Class Actions

Article 17 of the Mexican Constitution was amended on July 29, 2010, in order to permit Class Actions to be filed in the Federal courts in relation to matters of consumer protection and environmental laws, among others. Subsequently, on August 30, 2011, the Federal Code of Civil Procedures, the Federal Consumer Protection Law and the General Ecological

Balance and Environmental Protection Law were amended to include Class Actions. Such amendments became effective on March 1, 2012, though at the date of this Report, as far as the Company is aware, only a few Class Action lawsuits have been brought before the Federal courts in connection with environmental and environmental liability matters.

Federal Environmental Responsibility Law

The Federal Environmental Responsibility Law (*Ley Federal de Responsabilidad Ambiental*), enacted on July 7, 2013, regulates environmental liability for damage to the environment including environmental remediation and compensation. In the event of intentional and unlawful action or inaction, the party responsible shall be fined up to approximately fifty-three million Mexican pesos in 2018. This environmental liability regime is independent from administrative, civil or criminal liability regimes.

Environmental liability may be attributed to any company for the conduct of its representatives, managers, directors, employees, or officers who have operational domain over its activities. The limitations to claim environmental liability is twelve years from the date the environmental damage occurred. The law allows the interested parties to resolve disputes through alternative dispute resolution mechanisms, provided public interest or third-party rights are not affected.

Federal Labor Law

On November 30, 2012, the Federal Labor Law (*Ley Federal del Trabajo*) was amended to incorporate, among other things, (1) labor principles recognized by the International Labor Organization regarding non-discrimination of women and special-needs persons in the labor environment, (2) three new employment arrangements (the "initial training contract," the "on-probation contract" and the "temporary seasonal contract"), and (3) a new sub-contracting system that provides a legal framework to contract employees through third parties. Although the Company does not expect these amendment to have any significant impact, the potential effects of the application of this new Law cannot be accurately predicted.

Permits

Hydrocarbons Activities Permits

Hydrocarbons activities permits establish the general terms and conditions to regulate the activities covered by these permits. The Energy Regulatory Commission has approved and keeps a registration of the GSTC and GTTC of each permit. The GSTC and GTTC are modified from time to time by the Company, in accordance with the requirements to comply with the terms of the legal provisions and any new administrative regulation issued by the Energy Regulatory Commission. Therefore, certain provisions of the GSTC and GTTC of each permit may vary if the GSTC and GTTC are modified subject to the prior approval of the Energy Regulatory Commission.

Natural Gas Distribution Permits

The Company's distribution permits are to supply product within a geographical zone determined by the Energy Regulatory Commission based on the opinion of the local authorities that have jurisdiction over urban development issues. Distribution permits are commonly granted for 30 years and may be extended for a single subsequent period of 15 years. However, the permit holder may apply for a new permit at least two years before the expiration date of such permit.

In January 2018, the Energy Regulatory Commission approved an agreement that specified the entire Mexican territory as a Single Geographical Zone for the purposes of natural gas distribution. When said agreement took effect, the Geographical Zone Determination Department, which requested specific geographical zones to be determined prior to granted distribution permits, was eliminated.

The Company currently operates three natural gas distribution systems in the areas of Mexicali, Chihuahua and La Laguna-Durango, and it has distribution permits for these geographic zones. The ECOGAS distribution system holds separate distribution permits for each of the three distribution zones, which allows it to render natural gas distribution services in those locations. Each of these permits has a term of 30 years and their expiration dates range from 2026 to 2029. These permits provide that allocation of distribution services should be granted in an efficient manner and in accordance with principles of uniformity, homogeneity, regularity, safety and continuity. In addition, the distribution service capacity must be allocated on a non-discriminatory basis in accordance with the principles of open access. The distribution systems must be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure due compliance with all the applicable regulations. These permits can only be assigned if the applicable

distribution system is transferred together with the permit.

Natural Gas, LNG and Petrochemicals (Ethane) Transportation Permits

Transportation companies are not obliged to provide transportation services in any predetermined geographic zone. Transportation permits refer to a determined capacity and a specific route within Mexican territory. Transportation permits are granted on a non-exclusive basis by the Energy Regulatory Commission.

Each of the Company's transportation systems holds a separate transportation permit issued by the Energy Regulatory Commission that allows it to conduct transportation operations. Each of these permits has a term of 30 years and the expiration dates range from 2028 to 2046.

These permits provide that allocation of pipeline capacity must be conducted on a non-discriminatory basis through open seasons in accordance with open access principles, in the case of permanent allocations. In addition, these permits stipulate that the transportation system must be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure due compliance with all the applicable regulations. Any modification of these permits requires the prior approval of the Energy Regulatory Commission and their assignment is subject to the transportation system being transferred together with the permit.

A transportation system permit may be revoked in the event of (1) an interruption of transportation service without just cause or the authorization of the Energy Regulatory Commission, (2) engaging in unduly discriminatory practices, (3) charging tariffs in excess of those authorized by the Energy Regulatory Commission, (4) the assignment, modification or transfer of the permit in breach its conditions, or (5) the lack of payment of the supervision duties of the permit.

Natural Gas Marketing Permit

In December 2015, the Energy Regulatory Commission approved the Company's natural gas marketing permit, including natural gas trading, management and contracting of transportation, storage and/or distribution services. This permit has a term of 30 years and expires in 2045. This permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Energy Regulatory Commission for breach of the conditions established in the permit, (2) engages in unduly discriminatory practices, (3) assigns, transfers or modifies the permit without the authorization of the Energy Regulatory Commission, (4) breaches the cross-participation rules imposed by the Mexican Antitrust Commission and the Energy Regulatory Commission, or (5) fails to pay the permit oversight fees.

Natural Gas Export Permit

In January 2019, the Ministry of Energy approved the natural gas export permit, which enables IEnova Marketing to export natural gas to the United States. This permit has a term of one year and expires in February 2020. Obtaining this permit is subject to the approval of the Ministry of the Economy and the Ministry of Finance and Public Credit. Also, the export of natural gas must not impact the Country's public finances or threaten the continuity of the supply of said hydrocarbons in the Country. The permit may be revoked if (1) the Ministry of Energy confirms that the permit holder submitted false documents or information, made false statements or participated in illegal activities related to the purpose of the permit granted through firm legal resolution; (2) the Ministry of Energy confirms misuse of the permit, (3) the conditions stipulated in the applicable legislation are breached; (4) the exporter breaches the conditions of the permit; (5) the original conditions under which the permit was granted are altered, and (6) the jurisdictional authority confirms that the exporter does not have the documentation to permit the legal extraction from the country or that the records of its foreign-trade transactions are inconsistent with the declarations made in the permit application.

LNG Exportation Permit

In March 2019, the Ministry of Energy approved the LNG exportation permit, which enables IEnova Marketing to export LNG to various countries. This permit has a term of one year and expires in April 2020. Obtaining this permit is subject to the approval of the Ministry of the Economy and the Ministry of Finance and Public Credit (SHCP). Also, the export of natural gas required must not impact the Country's public finances or threaten the continuity of the supply of said hydrocarbons in the Country. The permit may be revoked if (1) the Ministry of Energy (SENER) confirms that the permit holder submitted false documents or information, made false statements or participated in illegal activities related to the purpose of the permit granted through firm legal resolution; (2) the Ministry of Energy confirms misuse of the permit, (3) the conditions stipulated in the applicable legislation are breached; (4) the exporter breaches the conditions of the

permit; (5) the original conditions under which the permit was granted are altered, and (6) the jurisdictional authority confirms that the exporter does not have the documentation to permit the legal extraction from the country or that the records of its foreign trade transactions are inconsistent with the declarations made in the permit application.

Natural Gas Pipeline Export Permit

In 2017, the General Customs Administration approved the renewal of the introduction of extraction authorizations of natural gas from the Mexican territory via pipelines for export. Each authorization has a term of three years and expires in 2020.

The authorizations are subject to the approval of the Tax Administration Service and the Ministry of Finance and Public Credit, and to the compliance with the following obligations; (1) the payment of the annual duties in accordance with the Federal Duties Law; (2) file, in the first two-month period of the year, the information on the merchandise purchased/sold compared with the merchandise the entry/exit of which would have been registered; (3) Be up to date with fiscal obligations, and (4) register the customs agents and shippers with whom these operations are performed.

The authorizations may be revoked when; (1) the annual duty is not paid; (2) the obligations of the permit are not performed; (3) the rights of the authorization are encumbered, assigned or transferred, either totally or partially; (4) the imports are made through customs agents not indicated in the permit.

Natural Gas Importation Permit

In 2018, the General Customs Administration approved the renewal of the introduction of extraction authorizations of natural gas from Mexican territory via pipelines for import. Each authorization has a term of three years and expires in 2021.

The authorizations are subject to the approval of the Tax Administration Service and the Ministry of Finance and Public Credit, and to the compliance with the following obligations; (1) the payment of the annual duties in accordance with the Federal Duties Law; (2) file, in the first two-month period of the year, the information on the merchandise purchased/sold compared with the merchandise the entry/exit of which would have been registered; (3) be up to date with fiscal obligations, and (4) register the customs agents and shippers with whom these operations are performed.

The authorizations may be revoked when; (1) the annual duty is not paid; (2) the obligations of the permit are not performed; (3) the rights of the authorization are encumbered, assigned or transferred, either totally or partially; (4) the imports are made through customs agents not indicated in the permit.

Natural Gas Storage Permit

The Company operates its natural gas storage facility under a natural gas storage permit granted by the Energy Regulatory Commission in August 2003. This permit allows the Company to provide LNG storage and regasification services until 2033 and requires that the Company allocate LNG storage and regasification capacity on a non- discriminatory basis and in accordance with open access principles. In addition, the permit requires that the storage facility be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable regulations.

The assignment and transfer of this permit is only allowed if the permit is transferred together with the LNG storage facility. Any modification of the permit requires prior approval by the Energy Regulatory Commission. The permit is subject to revocation in the event that the Company (1) interrupts the storage service without just cause or without the authorization of the Energy Regulatory Commission, (2) engages in unduly discriminatory practices or does not comply with the tariffs authorized by the Energy Regulatory Commission; (3) assigns, transfers or modifies the permit in breach of its terms; (4) breaches the obligations set forth in the permit, and (5) fails to pay the supervision duties stipulated in the permit.

In October 2007, the Energy Regulatory Commission approved the expansion of the maximum send-out capacity to 2,600 MMcfd (27.0 MMThd) and the addition of up to two additional LNG storage tanks. The GSTC (as amended from time to time at the request of the Company and approved by the Energy Regulatory Commission as part of the Natural Gas Storage Permit issued by the Energy Regulatory Commission) require an open season process to be held should the Company wish to expand the capacity of the terminal.

Natural Gas Liquefaction Permit

In December 2017, the Energy Regulatory Commission approved the Company's natural gas liquefaction permit in order to liquefy natural gas and supply LNG to tanker vessels and tanker trucks. This permit has a term of 30 years and expires in 2047. The permit is subject to revocation if the Company (1) breaches the obligations or conditions of the permit without just cause and with the authorization of the Energy Regulatory Commission, (2) engages in unduly discriminatory practices, (3) assigns or encumbers the permit, the rights conferred therein or the assets used for its performance without the authorization of the Energy Regulatory Commission, (4) fails to maintain the general insurance valid in accordance with the applicable regulation issued, (5) fails to pay, in more than one fiscal year and in the opinion of the Commission, the permit supervision contribution and use payments without just cause, (6) interrupts the activities stipulated in the permit for a period of at least 30 continuous calendar days without just in the opinion of the Commission, (7) bars access to its facilities by the Energy Regulatory Commission's inspection personnel, or (8) breaches the resolutions issued by the Energy Regulatory Commission, the Mexican Antitrust Commission or the National Industrial Safety and Environmental Protection Agency of the Hydrocarbons Sector within the scope of their respective jurisdictions.

In December 2018, the Energy Regulatory Commission; approved the modification of the permit to include changes to the infrastructure, such as the inclusion of the regulation and metering and regulation stations, and additional liquefaction train and the modification of the design capacity to 28,336 m^3/ days and changes to the timetable of activities.

LPG Storage Permit

The Company operates its LPG storage facility under an "LPG storage permit per supply plant", granted by the Energy Regulatory Commission in February 2012. This permit has a term of 30 years, until 2042, and allows for the reception of 42,000 bl of LPG, the storage of 80,000 bl of LPG in four storage tanks, each with a capacity of 20,000 bl, and the delivery of 30,000 bl of LPG through ten loading bays.

The permit also stipulates that the capacity must be allocated on a non-discriminatory basis and in accordance with open access principles. Assignment and transfer of this permit is only allowed if the permit is transferred together with the LPG storage facility. Any modification of the permit requires prior approval by the Energy Regulatory Commission. The permit is subject to revocation if the Company (1) interrupts the storage service without justified cause or without the authorization of the Energy Regulatory Commission, (2) engages in unduly discriminatory practices or does not comply with the tariffs authorized by the Energy Regulatory Commission, (3) assigns, transfers or modifies the permit in breach of its terms, or (4) fails to comply with the obligations set forth in the permit.

Petroleum Products Storage Permit

Each of the Company's storage terminals, whether port or on-shore, operate under an individual petroleum products storage permit granted by the Energy Regulatory Commission. This enables the Company to engage in petroleum products storage operations, such as regular and premium gasoline, diesel and jet fuel. These permits are valid for 30 years.

Each permit authorizes the Company to receive, store and deliver gasoline, diesel and jet fuel on a non-discriminatory basis in accordance with the principles of open access. The products shall be received via tanker vessels at port terminals and via tanker trucks at on-shore terminals. The products shall be stored in tanks of different specifications depending on the product to be stored, with a rated capacity and an operating capacity. The products shall be delivered by tanker trucks. These permits include a description of the complementary facilities, such as tanks for additives or to filter jet fuel.

In addition, the permits require that the terminals be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure compliance with applicable legal regulations. Any modification to these permits requires the prior approval of the Energy Regulatory Commission. This permit cannot be assigned separately from the respective storage terminal.

The storage permits are subject to revocation if the Company (1) interrupts the storage service without just cause or without the authorization of the Energy Regulatory Commission, (2) performs its activities using products obtained from illegal sources; (3) engages in unduly discriminatory practices or does not comply with the tariffs authorized by the Energy Regulatory Commission; (4) assigns, encumbers or transfers the permit in breach of the provisions of the Law; (5) breaches the Official Mexican Standards and the terms set forth in the permit; (6) dismantles the facilities or systems, or (7) failure repeatedly to pay the supervision duties stipulated in the permit.

Electricity Generation Permits

Electricity Generation Permits for LNG Terminal

The Company's electricity generation activities at the LNG terminal are performed subject to a self-supply electricity generation permit granted by the Energy Regulatory Commission; in February 2005. This permit enables the Company to generate electricity at the terminal for an indefinite term for its own use or use to its self-supply partners. The permit also requires that the electricity generation facilities be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable provisions.

The assignment and transfer of this permit is only permitted if the permit is transferred together with the electricity generation facilities and with the prior authorization of the Energy Regulatory Commission. The permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Energy Regulatory Commission for selling, reselling, or in any other way transferring the electricity generated in breach of the permit, (2) generates electricity in breach of the conditions established in the permit, (3) assigns, transfer or modifies the permit without the authorization of the Energy Regulatory Commission or in any other manner, breaches the terms and conditions of the permit.

In July 2017, the Energy Regulatory Commission; approved an electricity generation permit with capacity 227.612 MW for the Energía Costa Azul liquefaction project. This permit has a term of 30 years and expires in 2047. The permit is subject to revocation in the event that the Company (1) is repeatedly sanctioned by the Energy Regulatory Commission for selling, reselling or transferring the electricity generated in breach of the permit, (2) generates electricity in breach of the conditions established in the permit, (3) assigns, transfer or modifies the permit without the authorization of the Energy Regulatory Commission or in any other manner, breaches the terms and conditions of the permit, or (4) fails to pay the oversight fees stipulated in the permit.

Termoeléctrica de Mexicali Permits

The Termoeléctrica de Mexicali generation plant holds two-way electricity permits issued by the Energy Regulatory Commission. Under the first of these, the Company is permitted to produce and export up to 679.7 MW of electricity to the United States, and the term of the permit expires in 2031. In June 2001 the Company also received a permit to import 12.0 MW of electricity from the United States to power the generation station, for an indefinite term. The export permit requires that the electricity generation facility be operated and maintained by an authorized operator with the necessary technical and administrative experience to ensure compliance with all applicable provisions.

The assignment, transfer or modification of either of these permits requires prior approval of the Energy Regulatory Commission. Additionally, with respect to its export permit, its assignment or transfer is only permitted if the permit is transferred together with the electricity generation facility.

The permits may be revoked if Company (1) is repeatedly sanctioned by the Energy Regulatory Commission for selling, reselling or transferring the electricity generated without permission or for importing electricity in breach of applicable law or the terns of the permits obtained, (2) assigns, transfers or modifies any permit without the authorization of the Energy Regulatory Commission and breaches the requirements provided in the permit to that effect, (3) seriously, repeatedly or continuously fails to comply with the terms and conditions of the applicable legislation, its permits, the Official Mexican Standards or applicable technical and operational provisions, or (4) fails to pay the oversight fees stipulated in the permit.

The plant holds all the Federal environmental impact permits for its construction and operation.

Energía Sierra Juárez Permits

The Energía Sierra Juárez wind park is scheduled to be developed in different phases over several years. The first phase commenced operations in June 2015 and was constructed under an environmental impact authorization that was granted for all phases of the project and an initial change of forestry to industrial land use permit, which was granted for the first phase (for an area of 171.83 hectares). Both permits were granted by the Ministry of the Environment and Natural Resources (SEMARNAT). The Company also obtained a state environmental impact authorization specifically for the refurbishment and construction of access roads to the project.

The SEMARNAT environmental impact authorization covers a wind generation project up to 1,200 MW and the

removal of 5,120 hectares of forest and forest-like vegetation. It was issued in July 2010, and it has a 20- year term for the site preparation and project construction and a 60-year term for the operational stage.

As a result of the "Expansion" project, in November 2018, the Energía Sierra Juárez project obtained the environmental impact modification authorization from the SEMARNAT, which consists of adding 32 wind turbines with a potency range of 3.6 to 4.5 MW, in order to increase the rated capacity from 155 MW to 263 MW in an area of 25.13 hectares within Phase I (ESJ-Jacume). The change of forest land use permits, the state environmental impact authorization for internal roads and the environmental impact evaluation are in process and it is expected that the respective authorities will issue rulings during the course of 2019.

The power generation wind park operates under two electricity permits granted in June 2012 by the Energy Regulatory Commission: (1) an electricity import permit that allows the import of electricity into Mexico from the United States exclusively to meet the needs of the wind park, with an indefinite term; and (2) an electricity export permit that allows the Company to produce electricity with an installed capacity of 156 MW for a 30-year term, subject to renewals under certain conditions. Under these permits, electricity is imported and exported through a transmission line interconnected with San Diego Gas & Electric Company's East County substation. The assignment or transfer of these permits requires the prior approval of the Energy Regulatory Commission. Subsequent phases of the project will also require Energy Regulatory Commission permits to generate and sell energy.

The permits may be revoked if the Company: (1) is repeatedly sanctioned by the Energy Regulatory Commission for selling, reselling, or in any other manner transferring the electricity generating capacity or electricity in breach of applicable law or our permits, (2) assigns, transfers or modifies any of the permits without the prior authorization of the Energy Regulatory Commission, (3) repeatedly fails to pay the respective oversight fees on said permits, or (4) severely, repeatedly or continuously fails to comply with the terms and conditions of the applicable law, the permits, the Official Mexican Standards or the applicable technical and operational specifications.

Ventika Permits

The Ventika electricity generation wind park has two self-supply electricity generation permits with terms of 20 years granted pursuant to the now repealed Public Electricity Service Law for clean energy (wind) generation. However, under the terms of the Law of Electric Industry, the Ventika self-supply permits continue to be governed by the Public Electricity Service Law, and therefore, allow the Company to enter into bequeathed interconnection agreements for terms of up to 20 years. These permits also grant several benefits that may not be available to holders of permits granted under the Law of Electric Industry, such as fixed transmission and distribution tariffs and banking of surplus power for future sale, among others. From the effective date of the Law of Electric Industry, the Energy Regulatory Commission cannot grant permits under the terms of the previous law. Therefore, at the date of this document, it is impossible to obtain self-supply permits such as those granted to Ventika under the Public Electricity Service Law.

The plant holds all the Federal environmental impact permits for its construction and operation.

Solar Projects' Electricity Generation Permits

In 2017, the Energy Regulatory Commission approved the electricity generation permits for the Rumorosa solar project with an estimated capacity of 41 MW_{AC}, the Tepezalá solar project with an estimated capacity of 100 MW_{AC} and the Pima solar project with an estimated capacity of 110 MW_{AC}. These permits are valid for 30 years and are renewable. The permits may be revoked if the Company (1) is sanctioned repeatedly by the Energy Regulatory Commission for the generating electricity in breach of the conditions established in the permit, (2) assigns, transfer or modifies the permit without the authorization of the Energy Regulatory Commission, (3) fails to operate in a manner consistent with the efficient operation of the National Grid or the wholesale electricity market, or (4) breaches the terms and conditions of the permit.

In 2018, the Company acquired a self-supply electricity generation project with Energy Regulatory Commission permits, for Don Diego Solar with an estimated capacity of 125 $MW_{AC.}$ The permit has term of 20 years granted pursuant to the now repealed Public Electricity Service Law for clean energy (solar) generation. However, under the terms of the Electricity Industry Law, the self-supply permits of the project continues to be governed by the Public Electricity Service Law, and therefore, allow the Company to enter into bequeathed interconnection agreements for terms of up to 20 years. The permit also grants several benefits that may not be available to holders of permits granted under the Law of Electric Industry, such as fixed transmission and distribution tariffs and banking of surplus power for future sale, among others. From the effective date of the Law of Electric Industry, the Energy Regulatory Commission cannot grant permits under

the terms of the previous law. Therefore, at the date of this document, it is impossible to obtain self-supply permits such as those granted to Ventika under the Public Electricity Service Law.

Environmental Matters

Environmental Regulation

The Company's operations are subject to Federal, State and Local environmental laws, regulations, Official Mexican Standards and other technical standards. The distribution of jurisdiction over environmental matters among governmental authorities at the Federal, State and Municipal levels is based on a "residual formula" stipulated by the Mexican Constitution, which establishes that matters not expressly reserved to the Federal authorities fall under local-government jurisdiction, also known as concurrent jurisdiction. Although electricity and hydrocarbons projects are regulated under the jurisdiction of said Federal authorities, certain specific environmental matters, such as the special handling or management of urban solid waste, the opening of new access roads, land use and construction falls under State or Municipal jurisdiction. It must be emphasized that as a result of the new regulation of the hydrocarbons sector, the issues of special waste management, the registration of civil and environmental liability insurance policies, among others, comes under Federal jurisdiction and its regulation and management are within the remit of the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency.

The main environmental laws in Mexico applicable to the Company's business are the General Ecological Balance and Environmental Protection Law, the General Waste Prevention and Comprehensive Management Law, the National Waters Law, the General Sustainable Forestry Development Law, the General National Assets Law, the General Climate Change Law and the National Hydrocarbon Sector Industrial Safety and Environmental Protection Agency Law. Pursuant to these laws, provisions and regulations have been enacted on matters such as environmental impact and risks, land use change, noise emissions, atmospheric emissions, prevention and control of methane emissions, use of national waters and wastewater discharges in to national water bodies, hazardous residues, special and solid waste management, to which the Company's business is subject. The Company's business may also be subject to other laws, regulations and technical requirements relating to environmental protection such as the General Health Law, the Federal Occupational Health, Safety and Environmental Regulations and the Discharges Law in Mexican Maritime Zones Law and the Federal Criminal Code.

Breach of the applicable laws, regulations and Official Mexican Standards may result in the imposition of administrative, environmental and criminal fines and sanctions; revocations of authorizations, concessions, licenses, permits or registrations; administrative arrests, the seizure of polluting equipment; and in certain cases, the temporary or permanent closure of facilities and even imprisonment when the breaches are classified as environmental or environmental management offenses, as well as in remediation, reparation or compensation obligations in matters of civil or environmental liability.

The Company's projects operate under licenses, permits, authorizations, concessions and registrations issued under these environmental laws. The Company holds all the permits, licenses, registrations, concessions and/or authorizations necessary for its projects and it is in substantial compliance with the applicable environmental laws and the respective permits. There are currently no legal or administrative proceedings pending against the Company regarding any environmental matter, with the exception of the matters described in "Business description- Legal, administrative and arbitration Proceedings-ECA Matters"

The Company follows internal policies and procedures to ensure due compliance with applicable laws, regulations and its permits. The Company updates its permits, authorizations, licenses, concessions and registrations from time to time and evaluates their validity periodically, including the amendment, renewal, extension or termination of such permits. In the event that as a result of such evaluations, action needs to be taken to renew, maintain, transfer or obtain any permit, authorization, license or approval, the Company takes all necessary steps in order to keep them valid.

Regulatory and Oversight Authorities

SEMARNAT is the Federal environmental authority responsible for, among other things, granting Federal authorizations for environmental impact and risk, for change of forest land use, single environmental licenses, accident prevention programs, as well as issuing Official Mexican Standards (NOMs). As a result of the 2013 energy reform, the ASEA was created as a decentralized body of the SEMARNAT. The ASEA regulates, authorizes and oversees the industrial safety, operating and environmental protection activities and obligations with the authority to issue the aforementioned authorizations, as well as to assign the Regulated Entity's Single Registration Code, the Industrial Safety, Operational Safety and Environmental Protection Administration System (SASISOPA) authorization and generate the civil and

environmental safety policy registration, among others.

In addition to the foregoing there are six decentralized bodies within the SEMARNAT (the National Water Commission, the National Protected Natural Areas Commission, the National Biodiversity Awareness and Use Commission, the National Ecology and Climate Change Institute, the Environmental Protection Agency (PROFEPA) and the ASEA). There are two decentralized bodies with their own legal capacity and equity (the National Forestry Commission and the Mexican Water Technology Institute), which as part of their jurisdictions, ensure compliance with the environmental standards. The PROFEPA is responsible for investigating and inspecting facilities (including through the voluntary environmental audit program, described below), imposing sanctions, and ruling on the administrative appeals filed by persons who have been sanctioned for breaching the environmental regulations. The ASEA's remit covers inspecting, issuing licenses and authorizations and imposing sanctions on environmental, industrial and operating safety issues of the hydrocarbons sector.

The National Water Commission is responsible for the management and administration of national waters, both surface and underground, the prevention of water pollution, granting of the use and exploitation of national waters and the protection of certain national assets related to rivers, reservoirs and other water bodies. The National Water Commission grants concessions for the use and exploitation of national waters and permits for wastewater discharges into Federal water bodies. The National Water Commission has its own verification and inspection department, independent from the PROFEPA; however, the PROFEPA is also authorized by law to verify matters related to the use and contamination of national water bodies.

Environmental Certifications, Policies and Programs

Clean Industry and Environmental Quality Certifications

Currently, the Company's Gas and Electricity segments participate in the PROFEPA or ASEA voluntary environmental audit programs. These assets currently hold clean industry certificates or if applicable, are in the application or recertification process. The Company's goal is for all of its other assets to participate in this program as they commence operations and obtain the respective certificates.

As part of these voluntary environmental audit programs, companies agree to conduct the environmental audits of their own facilities and operations through an authorized third party every two years and approved by the PROFEPA or ASEA. Based on the audit findings, as applicable, the auditor prepares and proposes a corrective and/or improvement action plan to the company. Depending on the certification process, the auditor advises the PROFEPA or the ASEA, as the case may be, of the results of the audit and the suitability of the resulting action plan. Subject to its review and approval of the audit findings and recommendations, the PROFEPA or the ASEA, as applicable, approves the implementation of the action plan with the audited company.

The end result of this voluntary environmental audit program is a clean industry or an environmental quality certificate, which generally indicates that the company or business has complied with the action plan and is in compliance with the applicable Federal environmental laws and regulations, and in some cases with the international standards and the best engineering and operational practices. The certificate is valid for two years and may be continuously renewed for similar periods provided that the company continues to prove that it has maintained or improved the environmental compliance conditions in force at the time when the certificate was first granted.

Corporate Environmental Policies

The Company conducts its business in compliance with its Corporate Environmental Policy. This policy is communicated to its employees and contractors and applied both in new projects and in the operation and maintenance of its facilities. The Company has made the commitment to comply with the directives established in the Policy, as follows and with any other that may be implemented in the future:

- Incorporate the steps that contribute to mitigating the effects of Climate Change into the business strategy and adapt its activities to it.
- Minimize and mitigate the environmental impact, as well as respect the load capacity of the eco-systems as a result of IEnova's and its Subsidiaries' activities.
- Generate strategies to promote, foster and implement specific steps focused on achieving energy efficiency in IEnova's and its Subsidiaries' operations.

- Generate reliable environmental information to improve the environmental performance of IEnova and its Subsidiaries.
- Comply with applicable environmental laws, regulations and standards, as well as seeking to adopt the best industry environmental practices.
- Instill awareness of the importance of environmental matters among the employees of IEnova and its Subsidiaries, customers and suppliers, as well as in the communities in which they operate.
- Establish mechanisms to achieve the transparency and publicity of its results for decision-making and to seek on-going improvement of the environmental performance of IEnova and its Subsidiaries.
- Foster the efficient use of the resources available in the areas where IEnova and its Subsidiaries perform their activities.

The Company frequently seeks to improve the environmental performance of its operations based on internal standards that go beyond the regulatory requirements.

Environmental Programs for the Conservation of Biodiversity

The Company has several on-going environmental programs to conserve biodiversity as well as construction projects and operations that are focused on the conservation, protection and restoration of species of flora and fauna.

As the Company maintains high standards of environmental compliance, it considers it unlikely that it will incur material costs and liabilities related to environmental matters related to its current projects, based on its existing clean industry certificates, the implementation of its Corporate Environmental Policy and on-going compliance monitoring programs. However, the Company cannot guarantee the future costs and liabilities associated with its projects, which in turn may have a material adverse effect on its activities, financial situation, operating income, cash flows and the outlook of the Company, as well as on the market price of its securities.

vi) Human Resources

Employees

As of December 31, 2018, 2017 and 2016, the Company had 1,035, 930 and 883 employees, respectively. The following sets forth the Company's number of full-time employees by type of activity and business segment:

	2018	2017	2016
Activity			
Management	167	151	135
Operations	722	685	589
Construction and engineering	146	94	159
Business Segment			
Gas[(1)]	716	663	660
Power	51	44	49
Corporate	268	223	174
Total employees	**1,035**	**930**	**883**

(1) For the years ended December 31, 2018, 2017 and 2016, the number includes, respectively, the 12, 12 and 12 employees employed by the Company's joint venture with Actis.

The increase of employees from 2016 to 2018, is mainly due to new projects under development.

As of December 31, 2018, 2017 and 2016, the Company had 96.7%, 96.2%, 96.5% trusted employees, and 3.3%, 3.8%, 3.5% unionized employees, respectively.

Collective Bargaining Agreements

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

vii) Environmental Performance

See "Legal Framework and Taxation - Environmental Matters."

viii) Market Information

General

In Mexico, the natural gas and power sectors are highly regulated and have a high level of participation by the Mexican government. In the power sector, the Mexican government owns 100% of the Mexican Federal Electricity Commission, which until recently was a decentralized entity of the federal government. The Mexican Federal Electricity Commission is responsible for the planning of the Mexican power grid as well as the generation, transmission, distribution and sale of energy. In the natural gas sector, the government owns 100% of Pemex and its subsidiaries, including Pemex TRI, which until recently was also a decentralized entity of the federal government. Pemex TRI is responsible for the exploration and production of petroleum and other hydrocarbons, among other activities. Legislative changes in Mexico in the 1990s in both the natural gas and power sectors created significant investment opportunities for the private sector. In December 2013, a new and substantial legislative change occurred as a result of amendments to the Mexican Constitution. The reform created a new legal framework for the oil, gas and electric power industries in Mexico. The main objectives of the reform were to open the oil, gas and power sectors in Mexico to private investment. Both Pemex and the Mexican Federal Electricity Commission will continue to play a key role in the natural gas and electric power sectors as state productive enterprises (*empresas productivas del Estado*), owned and controlled by the federal government, with entrepreneurial, commercial and financial objectives.

The market information presented below is based on the prospects published by the Ministry of Energy. The Company can not guarantee that the estimates included in these documents will materialize.

The Mexican Natural Gas Industry

Prior to the last energy reform, natural gas production was carried out exclusively by the Mexican government through Pemex and its subsidiaries. The deregulation of the natural gas industry started in 1995, when changes to Mexican law allowed private sector participation in the midstream (transportation and storage) and downstream (distribution) natural gas sectors. The National Pipeline System (*Sistema Nacional de Gasoductos*) still holds a dominant position in the market through the newly created CENAGAS. The energy reform allows private sector entities to store, transport, distribute, market and carry out direct sales of natural gas, as well as to operate pipelines and liquefaction, regasification, compression and de-compression stations, as well as terminals.

According to the Natural Gas Prospect (2018-2032) published by the Mexican Ministry of Energy, private investment in the natural gas sector is comprised as follows:

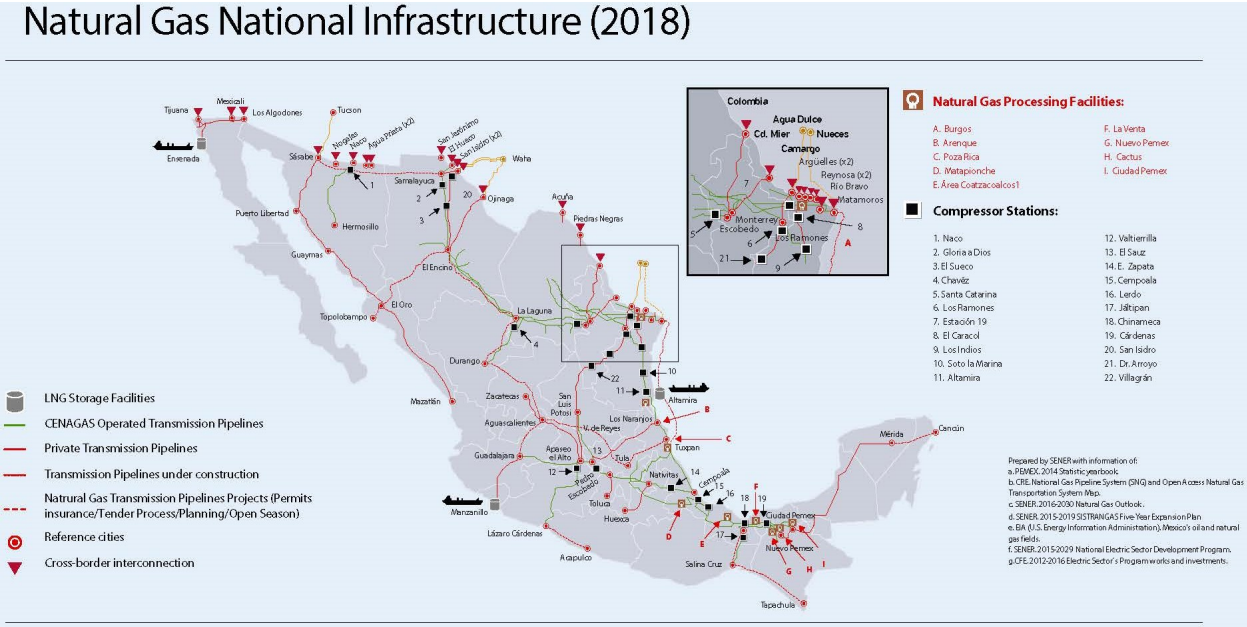
- 68 active permits for open-access transportation systems;
- 31 distribution companies; and
- 3 LNG import terminals.

In addition, as a result of the auction rounds organized by the National Hydrocarbons Commission ("CNH"), several private companies have been awarded contracts for the exploration and extraction of hydrocarbons.

As a consequence of the environmental and economic advantages of natural gas over other energy alternatives, demand for natural gas in Mexico has increased significantly, mainly due to the increased usage of natural gas by the Mexican Federal Electricity Commission and Independent Power Producers ("IPPs"). In addition, these advantages have led to an increase in consumption of natural gas in other industries, where it is a less expensive and more efficient alternative to other fuels.

Transportation

The following map shows Mexico's current natural gas infrastructure:



Source: SENER, Statistic compendium December 2018

In 2018, the Ministry of Energy presented the third annual review to the 2015-2019 Five Year Plan for Expansion of the National Integrated Natural Gas Transport and Storage Systems. This review confirmed the validity of the initial projects, according to the natural gas market evolution in Mexico.

Below, the detail of the projects that remain valid in the Five-Year Plan 2015-2019:

Strategic development projects

	Project	States Benefited	Lenght[1]	Capacity (MMcfd)	Estimated investment MMUSD [1]	Award Dates [2]	Operation Date
1	Tuxpan-Tula	Hidalgo, Puebla y Veracruz	283	886	458	2015	2018
2	La Laguna-Aguascalientes	Aguascalientes, Zacatecas y Durango	600	1,189	473	2016	2018
3	Tula-Villa de Reyes	Hidalgo y San Luis Potosí	420	886	554	2015	2018
4	Villa de Reyes-Guadalajara	Aguascalientes, Jalisco y San Luis Potosí	305	886	294	2016	2018
5	Samalayuca-Sásabe	Chihuahua y Sonora	650	472	571	2015	2018
6	Sur de Texas-Tuxpan	Tamaulipas y Veracruz	800	2,600	2,111	2016	2018

(1) According to the published information issued by CRE.
(2) CFE

Other projects planned in the five-year plan

	Project	States Benefited	Lenght[1]	Capacity (MMcfd)	Estimated investment MMUSD [1]	Award Dates [2]	Operation Date
1	Nueva Era	Nuevo León	273	504	n.d.	Developed at own risk	2018
2	Jáltipan-Salina Cruz	The Independent Manager will hold a binding Open Season in the second half of 2018 to confirm the participants. In the event that demand for transport capacity warrants an infrastructure tender, the Independent Manager will conduct the bidding process and determine the definitive date for the start of operations.					
3	Strategic Storage Project	To be defined	NA	To be defined (at least 10 BCF)*	To be defined	2018-2019	To be defined

(*) Corresponds to the volume of stored gas.
(1) According to the published information issued by the CRE
(2) CFE

Interconnection Projects

	Project	System or infrastructure that it interconnects	Location	Interconnection Capacity (MMcfd)	Estimated Operation Date	Status	Developer
1	Monte Grande	G. Sur de Texas-Tuxpan	Tuxpan (Veracruz)	500	Oct-18	Developing	Infraestructura Marina del Golfo
2	El Encino	G. Encino-La Laguna	El Encino (Chihuahua)	70	Oct-18	Developing	Fermaca
3	Guadalajara	Villa de Reyes-Aguascalientes-Guadalajara	Zopotlanejo (Jalisco)	200	Oct-19	In planning	Fermaca
4	Pajaritos	FSRU	Coatzacoalcos (Veracruz)	540*	2018	In planning	Pemex-TRI
5	Mayakán	G. Mayakán	Reforma (Chiapas)	350**	Dec-2019	In planning	Engie

(*) According to Pemex Transformación Industrial's interconnection request that was submitted to CENAGAS on July 28, 2017 and is in the process of evaluation.
(**) According to the request for interconnection entered by Engie to CENAGAS on November 15, 2017 and in the process of evaluation.

Indicative projects at expense and risk of privates

	Project	Location	Capacity (MMcfd)	Estimated Operation Date
1	Hub Kinder Morgan Monterrey	Nuevo Leon	200	2019
2	Libramiento Reynosa	Tamaulipas	350	2020
3	Libramiento Juárez	Chihuahua	35	2020
4	Expansión Argüelles	Tamaulipas	150	2019
5	Suministro a Quintana Roo*	Quintana Roo	Depending on the open season to be done between 2019 and 2020	

(*) Depending on the availability of additional capacity derived from projects to fulfil the southeast demand (interconnection with Mayakán pipeline, Cempoala Compression Station and the interconnection of the FSRU - Floating Storage Regasification Unit- in Pajaritos), and from the open season

that captured industry and population centers needs, it will be possible to define a pipeline project in Quintana Roo. Engie has shown interest in the project.

Projects to be developed by CENAGAS

	Project	Location	Capacity	Estimated Operation Date
1	Pátzcuaro Compression Station	Michoacán	In planning phase	2019-2020
2	Cempoala Compression Station	Veracruz	Reconfiguration of north-south flow: 350 MMcfd	2019

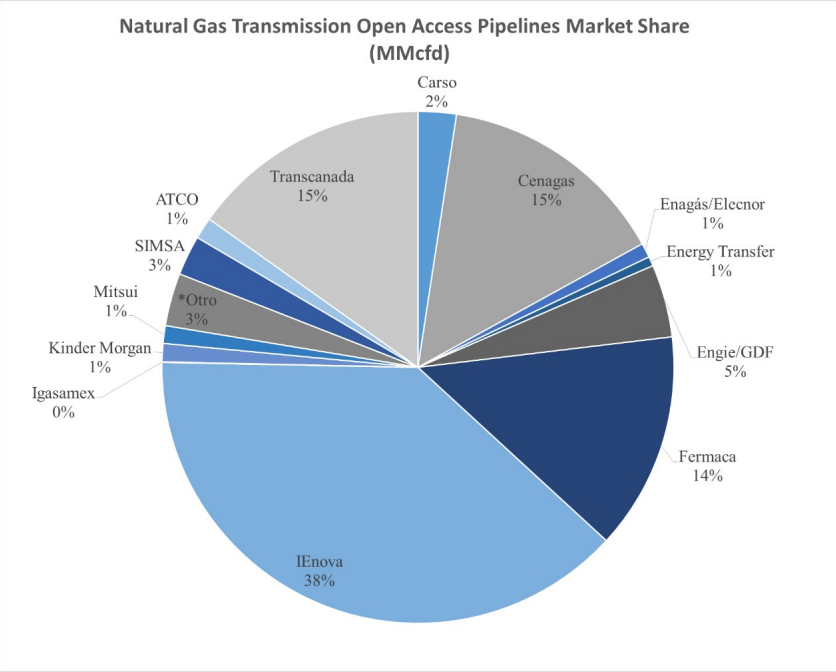
The following map shows the location of the transportation projects listed in the previous tables:



Source: SENER Third Annual Review five-year Plan for the Expansion of the National Integrated natural gas Transportation and Storage System 2015-2019

Open-Access Pipeline Transportation Projects

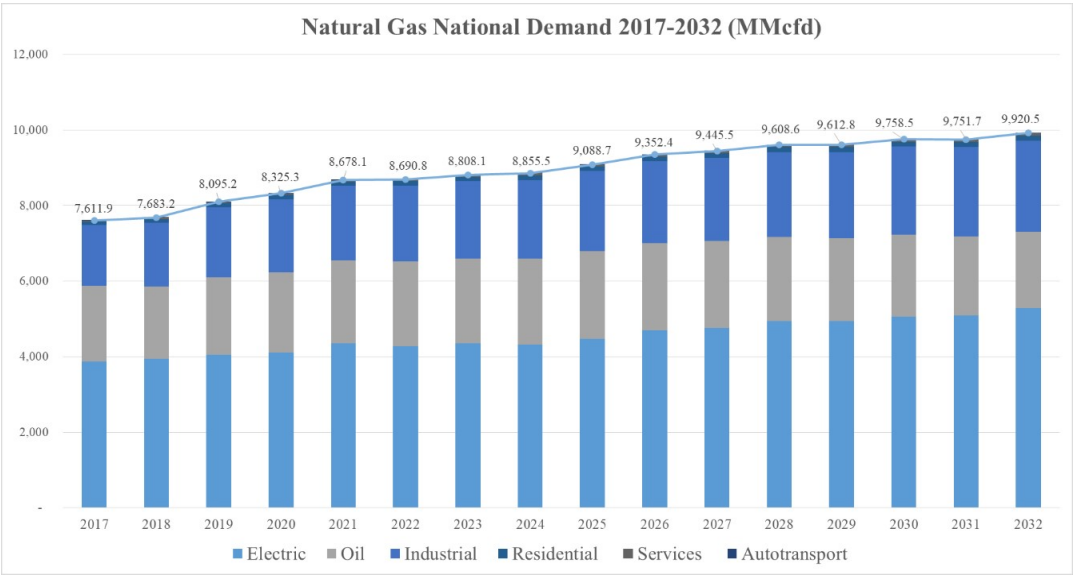
The network of natural gas pipelines in Mexico is composed of approximately 20,472 km of open access transport pipelines. The Mexican market for natural gas pipelines is concentrated on a few key companies. The four main transport companies comprise more than 80% of the market. The market share for the natural gas transport sector through open access pipelines is shown in the next table:



*Includes Finsa, Conceptos Energéticos Mexicanos and BlackRock participation

Source: Mexican Energy Regulatory Commission 2018.

Currently, these open-access transportation pipelines transport natural gas to the CFE, Independent Power Producers (IPP's), industrial customers, distribution companies and Pemex. According to SENER information, natural gas demand has increased substantially in Mexico due to the shift to natural-gas-fired combined-cycle technology for power generation, as well as the increase in the use of this fuel in the industrial, residential and transport sectors. Following is the prospective information on the national demand for natural gas by 2032:



Source: Mexican Ministry of Energy, Natural Gas Market Outlook 2018-2032.

Currently, Mexico does not have natural gas storage capacity, with the exception of LNG import and regasification projects. The Public Policy on natural gas storage reviewed by the Ministry of Energy will require up to 45,000 MMcfd of minimum inventory, which is equivalent to the national demand for natural gas estimated for the

year 2029. This will allow the country to have 5 days of natural gas inventory to deal with emergencies in the pipeline network or at any point of import. It will require investments for the construction of storage infrastructure.

According to the Public Policy, the storage of natural gas will be made in economically unviable deposits, for which the CENAGAS will be carrying out the bidding for the first 10,000 MMcfd in the "Jaf field" located in the state of Veracruz.

LNG Storage and Regasification Facilities

The substantial rise in demand for natural gas from the CFE and Independent Power Producers has contributed to the increase in total natural gas demand in the country, which represents an increase of 46% compared to the last decade. In 2032, demand is expected to have grown 30.3% compared to 2017, from 7,613 MMcfd in 2017 to 9,920.5 MMcfd in 2032.

In addition to the imports from cross-border pipelines, imports of LNG have helped satisfy the growing demand for natural gas. Currently Mexico has three LNG regasification terminals, and as of December 2018, the Company has approximately 50% of all LNG regasification capacity in the country.

LNG Regasification Terminals

Plant	Location	Status	Owner	Initial Date	Rated Capacity (MMcfd)
Altamira LNG Terminal	Altamira, Tamaulipas	In Operation	Vopak y Enagás	2006	670-1,119
Energía Costa Azul	Ensenada, Baja California	In Operation	IEnova	2008	1,000 - 1,300
KMS LNG Terminal	Manzanillo, Colima	In Operation	KoGas, Mitsui y Samsung	2012	500

Source: Mexican Energy Regulatory Commission

Natural Gas Distribution Business

According to the Natural Gas Outlook 2018-2032, the Energy Regulatory Commission has reported 31 permits in operation for the distribution of natural gas through pipeline, an increase of 34% compared to 2016. These permits have an average volume daily of 1,191 MMcfd.

Natural Gas Marketing

In February 2016, a resolution was published in the Official Gazette of the Federation, in which the Energy Regulatory Commission issued the general administrative provisions applicable to the commercialization of natural gas. The resolution states that Pemex must release part of its portfolio of natural gas marketing contracts within a maximum period of 4 years, an assignment that equals 70% of its marketing in the domestic market. In July 2016, the Secretary of Energy published the Public Policy for the Implementation of the Natural Gas Market, whose objective was to establish public policy that encourages the development of a competitive natural gas market, to contribute to the country's energy security and the continuity of supply. In January 2017, the Energy Regulatory Commission of Mexico implemented the "Contract Assignment Program" with the objective of determining the characteristics of the procedure for the implementation of this program; the implementation of this program will be carried out through the release of contracts in three phases. As a result of the first phase, in September 2017, Pemex released 32.16% of the total volume of its natural gas marketing portfolio.

The Energy Regulatory Commission has achieved important advances in the implementation of a permanent plan for the sale of natural gas. The plan is expected to allow all natural gas marketers to purchase natural gas directly from the Pemex processing plant or at cross-border import points, thereby ending the transitory regime in which the

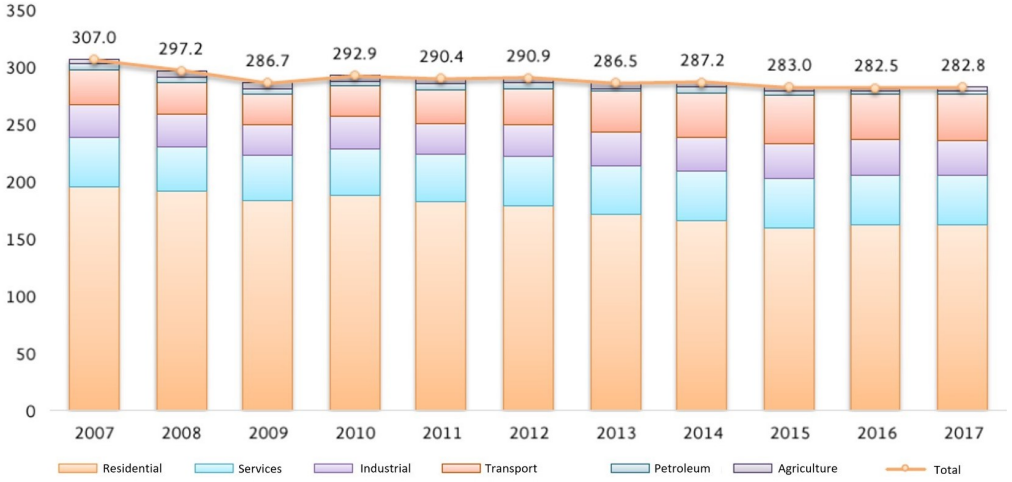
majority of consumers (except for IPPs) had to purchase natural gas and related transportation services through Pemex TRI.

The refined petroleum products industry in Mexico

The current Mexican regulations allow the investment of the private sector in the transportation, storage and distribution of LPG. The distribution market is managed by a very small group of companies with significant barriers to entry.

In the last decade, domestic demand for LPG gradually decreased by 7.9%, presenting an average annual growth rate of -0.8%. At the end of 2017, LPG demand was 282.8 thousand barrels per day (Kbpd), 0.1% higher than the previous year, with the residential sector being the largest contributor to the country's demand.

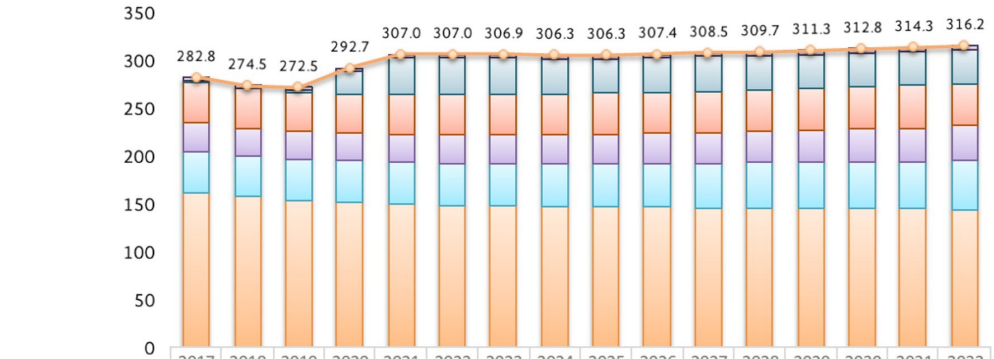
LPG national demand 2007-2017 (Kbpd)



Source: SENER Natural Gas Prospect 2018-2032

By 2032, it is estimated that LPG demand will reach 316.2 Kbpd, 11.8% higher compared to 2017, with different growth rates by sector, as shown in the following graph:

LPG national demand forecast 2017-2032 (Kbpd)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Agriculture	3.3	3.3	3.3	3.4	3.4	3.5	3.5	3.6	3.6	3.7	3.7	3.8	3.8	3.9	4.0	4.0
Petroleum	2.1	0.5	1.9	23.7	38.7	38.8	38.4	37.5	36.6	36.5	36.5	36.4	36.5	36.4	36.4	36.4
Transport	41.2	41.3	41.5	41.5	41.7	42.0	42.3	42.6	42.8	43.0	43.2	43.3	43.5	43.6	43.7	43.9
Industrial	31.1	29.2	28.8	29.1	29.4	29.7	30.1	30.5	31.0	31.6	32.2	33.0	33.8	34.7	35.7	36.7
Services	42.5	42.4	42.5	42.8	43.2	43.7	44.2	44.8	45.3	46.0	46.6	47.2	47.9	48.7	49.5	50.3
Residential	162.6	157.8	154.5	152.2	150.6	149.3	148.3	147.4	147.0	146.6	146.3	146.0	145.8	145.5	145.0	144.9

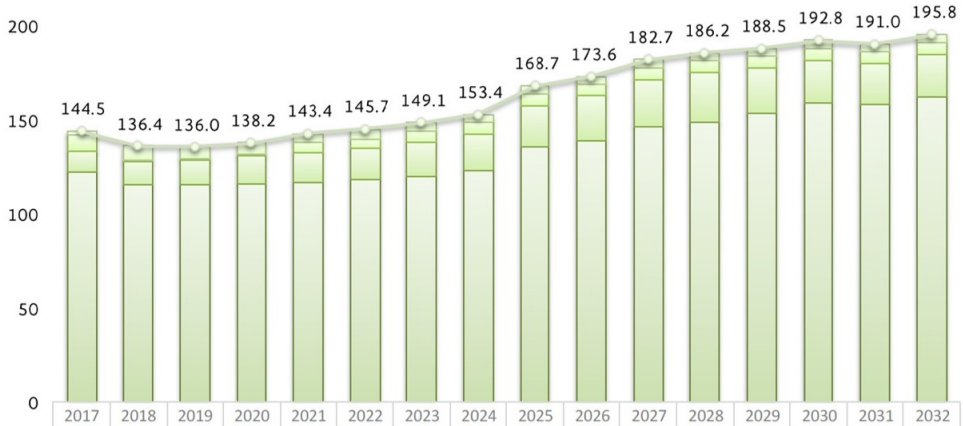
Source: SENER Natural Gas Prospect L.P. 2018-2032

The estimated LPG production is derived from the analysis of hydrocarbon production scenarios proposed by the General Director of Exploration and Production of Hydrocarbons of the Ministry of Energy (SENER), based on joint work with Pemex and the National Hydrocarbons Commission (CNH).

It is estimated that in 2032, the domestic supply of LPG will be 195.8 Kbpd, 35.5% higher than in 2017, due to the exploration and production blocks awarded through the Mexican bid rounds.

In 2032, the region that will provide the most domestic energy production will be the Southern-Southeastern region with 162.8 Kbpd, which will represent 83.1% of the total production, followed by the Northeastern region with 22.4 Kbpd (11.4%), Central with 6.3 Kbpd (3.2%) and finally the Central-Western region with 4.4 Kbpd (2.2%).

LPG national supply forecast 2017-2032 (Kbpd)



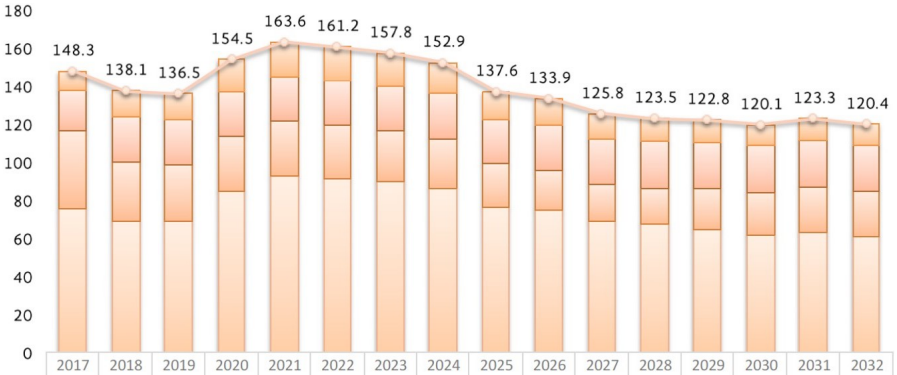
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Central-Western	2.4	7.3	6.2	6.0	5.3	5.5	4.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Central	8.6	1.0	1.0	1.0	4.9	5.4	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Northeastern	11.1	12.4	13.4	15.1	15.6	16.0	18.1	19.1	21.7	24.2	24.9	26.2	24.1	23.1	21.9	22.4
Southern-Southeastern	122.4	115.8	115.4	116.1	117.5	118.8	120.6	123.6	136.3	138.8	147.2	149.4	153.8	159.1	158.4	162.8

Source: SENER with Pemex's information

The import volume at the end of the study period will be reduced by 18.9%, from 148.3 Kbpd in 2017 to 120.4 Kbpd in 2032, as a result of the expected increase in the domestic fuel production.

By 2032, it is estimated that the Southern-Southeastern region import the largest volume of LPG imports with a share of 51.0% (61.4 Kbpd), followed by the Northeastern region with 20.3% and finally the Northeastern and Central-Western regions with 19.6% (23.6 Kbpd) and 9.1% (11 Kbpd) respectively.

LPG imports forecast 2017-2032 (Kbpd)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Central-Western	10.0	13.9	13.8	16.8	18.2	17.7	17.3	16.6	14.5	14.1	12.8	12.5	11.9	11.2	11.4	11.0
Central	21.1	24.2	23.9	23.6	23.6	23.5	23.6	23.6	23.7	23.8	24.0	24.1	24.2	24.3	24.3	24.4
Northeastern	41.8	31.0	29.4	28.7	28.8	28.5	26.7	25.8	23.0	20.9	20.2	19.2	21.5	22.7	24.0	23.6
Southern-Southeastern	75.4	69.0	69.4	85.3	93.1	91.5	90.2	86.9	76.5	75.0	68.8	67.7	65.1	61.8	63.5	61.4

LPG Storage

Mexico's LPG infrastructure has a design storage capacity of 5.7 million of barrels, which is distributed among the projects shown in the following table:

	Corporate name	Permit number	Design Capacity (barrels)		Corporate name	Permit number	Design Capacity (barrels)
1	Gas Comercial de la Laguna [1]	G/003/LPA/2010	9,435	17	Gas Silza, S.A. de C.V. [1]	G/255/LPA/2011	7,862
2	Almacenadora de Gas Comercial [1]	G/004/LPA/2010	6,290	18	Gas Silza, S.A. de C.V. [1]	G/256/LPA/2011	6,290
3	Zeta Gas de Ciudad Juárez [1]	G/005/LPA/2010	3,774	19	Hidro Gas de Agua Prieta, S.A. de C.V. [1]	G/257/LPA/2011	4,717
4	Zeta Gas de Ciudad Juárez [1]	G/006/LPA/2010	9,435	20	Gas Comercial de Villa Ahumada, S.A. de C.V. [1]	G/258/LPA/2011	4,717
5	Invalle, S. A. de C. V. [1]	G/007/LPA/2010	12,580	21	Almacenadora de Gas Comercial, S. A. de C. V. [1]	G/259/LPA/2011	5,912
6	Pemex Logística (Rosarito) [1]	G/018/LPA/2010	40,002	22	Transportadora del Norte Sh, S. de R. L. de C. V. [1]	G/276/LPA/2012	80,000
7	Nustar Internacional, S. de R. L. de C. V. [2]	G/020/LPA/2010	34,287	23	Termi-Centro, S.A. de C.V. [1]	G/354/LPA/2015	80,002
8	Termigas, S. A. de C. V. [1]	G/021/LPA/2010	433,799	24	Almacenamientos Subterráneos del Sureste [3]	G/355/LPA/2015	1,800,034
9	Pemex Logística Topolobampo [1]	G/022/LPA/2010	210,013	25	Pemex Logística (Pajaritos) [1]	LP/12159/ALM/2015	770,467
10	Zeta Gas del Pacífico [1]	G/023/LPA/2010	868,750	26	Pemex Logística (Salina Cruz) [1]	LP/19357/ALM/2016	4,000
11	Trans-Soni, S. A. de C. V. [1]	G/027/LPA/2010	14,284	27	Pemex Logística (Cactus) [1]	LP/19380/ALM/2016	40,003
12	Terminal Marítima Gas Tomza [1]	G/029/LPA/2010	392,799	28	Pemex Logística (Madero) [1]	LP/19381/ALM/2016	15,001
13	Bio Gas de Victoria [1]	G/030/LPA/2010	3,145	29	Pemex Logística (Tula) [3]	LP/19797/ALM/2016	60,001
14	Zeta Gas de Baja California [1]	G/031/LPA/2010	610,679	30	Pemex Logística (Puebla) [3]	LP/19798/ALM/2016	20,000
15	Gas de Calidad, S. A. de C. V. [1]	G/253/LPA/2011	73,802	31	Pemex Logística (Tierra Blanca) [3]	LP/19799/ALM/2016	10,000
16	Generadores de Energía del Noroeste, S.A. de C.V. [1]	G/254/LPA/2011	6,290	32	Pemex Logística (San Martín Texmelucan) [3]	LP/19800/ALM/2016	20,000
						Total	**5,658,373**

Notes: 1) Facilities in operation. 2) Facilities with suspended service. 3) Facilities with operations to be initiated.
Source: SENER Handbook of LNG and Petroleum Statistics.

The Company owns Transportadora del Norte, S de R.L de C.V. with a storage capacity of 80,000 barrels.

At the beginning of December 2018, there were 1,195 permits for distribution plants in the country, which have a total storage capacity of 2.38 million barrels.

LPG transportation by pipeline

LGP Pipelines per region in Mexico



Location	Owner	Length (km)	Capacity (Kbpd)
CPG Burqos-Monterrey	TDF S. de R L. de CV	185	34
Poza Rica-Atotonilco-Santiaqo	Ductos del Altiplano, SA de CV	285	35
Frontera EUA-Ciudad Juárez	Pemex-Loqistica (SHM)	35	24
Cactus-Guadalajara	Pemex-Loqistica (SNGLP)	1,539	240
	Total	**2,044**	**333**

Source: SENER with information from CRE

Mexican LPG transportation and storage infrastructure is one of the areas that most needs modernization due to the inefficient extended truck transport system, widely used in Mexico today.

Given the current state of the LPG infrastructure and the expected future market environment, it is necessary to develop a strategy to increase transportation and storage capacity in the southeast of Mexico and the main consumption areas. This would guarantee the supply of LPG and increase transportation flexibility.

Regarding the LPG Prospective 2018-2032 published by SENER proposes opening the sector through public-private partnerships. These investments are intended to stop the decline in production and, increase oil production, which will lead to an increase in refined products, especially LPG.

Refined petroleum products

Since 2011, the growth of refined petroleum products demand shows a slightly attenuation, explained in recent years by the effect of price increases, as shown in the following table:

Refined petroleum products demand 2011-2018

Year	2011	2012	2013	2014	2015	2016	2017	2018
Demand (MMBD)	**1,439**	**1,477**	**1,430**	**1,353**	**1,361**	**1,405**	**1,405**	**1,406**
Gasoline	799	803	787	776	794	823	799	789
Diesel	384	400	392	389	385	387	385	389
Turbosine	56	59	62	67	71	76	82	87
Fuel oil	201	214	190	122	111	118	140	141

Source: SENER with information of SIE and SAT

As of September 2018, the demand for gasoline showed a decrease of 2 Kbpd compared to the same period of 2017. The transport sector represents 99.8% of total consumption and the oil sector only 0.2%. The Central and Western regions observed the highest consumption nationwide, with 29% and 19%, respectively.

As of September 2018, the diesel demand registered a decrease with respect to the same period of 2017, derived from the decreases in the oil & gas and transportation sectors, which represented 88% of sales in the country.

The air transportation sector consumes all of the jet fuel in the country. As of September 2018, jet fuel demand showed an increase of 5 Kbpd compared to the same period of 2017, as a result of growth in the air transportation sector.

Currently, the national refined petroleum products supply in Mexico is composed of the national production of the National Refining System (SNR), as well as Pemex and private imports.

Due to the scarce refined petroleum products production in the SNR, caused mainly by the suspension of activities of the Madero refinery and lower usage levels of Minatitlán, fuel imports increase significantly.

In 2017, domestic production of gasoline, diesel, jet fuel and fuel oil accounted for 42% of the national supply, while imports accounted for 58%, registering an increase of 10% over the previous year. In the 2011-2017 period, gasoline imports abruptly increased by 41%, from 405 Kbpd to 572 Kbpd; while, production decreased 36%, from 400 Kbpd to 257 Kbpd.

Regarding diesel, imports increased 89% from 136 Kbpd in 2011 to 257 Kbpd in 2017, while production decreased 44% from 274 Kbpd to 154 Kbpd. The share of diesel supply production was at 37% in 2017.

In the case of jet fuel, imports increased from 1 Kbpd in 2011 to 43 Kbpd in 2017; in contrast, domestic production decreased from 56 Kbpd to 41 Kbpd during the same period, which represents a reduction of 28%.

In recent years, there has been an increase in the demand for fuels in the country, as well as a marked decrease in the domestic supply, derived from the reduction crude oil processing from the SNR. This resulted in an increase in the volume of imports of refined petroleum products in Mexico, which reached 997.3 Kbpd in 2018, equivalent to an average annual growth rate (TMCA) of 8.4% registered from 2011 to 2018. During the same period, jet fuel imports

grew the most of all refined petroleum products, with a TMCA of 79.9%; however, intermediate distillates recorded the lowest increase with a TMCA of 5.9% for gasoline and 11.7% for diesel.

Selected refined petroleum products imports 2011-2018 (Million of barrels)

Concept	2011	2012	2013	2014	2015	2016	2017	2018	Average anual growth rate (TMCA) 2011-2018
Gasoline	404.7	395.2	358.3	370.0	426.6	505.1	571.9	605.3	5.9%
Diesel	135.7	133.6	107.1	132.9	145.3	188.1	256.7	294.0	11.7%
Turbosine	0.9	3.3	3.2	12.0	23.5	33.4	43.2	54.8	79.9%
Fuel oil	25.0	44.6	31.3	13.0	17.0	26.5	39.4	43.2	8.1%
Total	566.3	576.7	499.9	527.9	612.4	753.1	911.1	997.3	8.4%

Source: SENER with information of SIE and SAT

In December 2017, SENER published the Crude Oil and Petroleum Product 2017-2031, through which it estimates a lower refined petroleum consumption growth rate in the country. The following table shows the projected demand of petroleum products for 2017-2031:

Year	Gasoline	Diesel	Turbosine	Fuel oil
2017	799	387	82	146
2018	789	385	87	140
2019	799	391	89	130
2020	810	398	92	121
2021	820	405	95	113
2022	831	412	97	105
2023	841	419	100	98
2024	852	426	103	92
2025	864	434	106	85
2026	875	441	109	79
2027	886	449	112	74
2028	898	457	116	69
2029	910	465	119	64
2030	922	473	123	60
2031	935	481	126	56
Average anual growth rate (TMCA) 2017-2031	1.13	1.57	3.16	-6.62

Source: Crude Oil and Petroleum Product Outlook 2017-2031 with SIE and SAT' information.

In the period 2017-2031, the demand for gasoline will increase by 136 Kbpd, to 935 Kbpd. This growth will be dampened by higher internal combustion engine efficiency, rapid market penetration of electric vehicles, and vehicle fleet composition, among other factors.

Diesel demand is expected to grow from 387 Kbpd in 2017 to 481 Kbpd in 2031, equivalent to a 25% increase. The consumption of this product in the maritime sector will grow as a result of the sulfur content restrictions for maritime transportation. Diesel will be the immediate substitute, while conversions are made for the use of liquefied natural gas, filters are installed to reduce emissions, or fuel oil with ultra-low sulfur content becomes more widely available.

The demand of jet fuel will increase during the coming years as a consequence of the vitality of the domestic tourism, economic growth, and the development of new airport infrastructure, among others. By 2031, the consumption of this fuel will reach 126 Kbpd.

Today, Mexico depends heavily on imported refined petroleum products. Future demand in the gasoline business will grow, regardless of the gradual incorporation of hybrid or electric vehicles. There is no real certainty in the short term of the increase in national production, so the dependence on imported refined products will continue to be significant.

Based on the Crude Oil and Petroleum Product Outlook 2018-2032 published by SENER, Pemex TRI's projects, aim to ensure that the SNR infrastructure reaches optimal capacity and reliability to process crude oil, as well as satisfy its market demand.

Three SNR refineries do not currently have coke plant technology; when installed, it will improve heavy crude processing. This will increase the production of refined petroleum products such as gasoline, diesel and jet fuel, and consequently reduce fuel oil, whose market value has been reduced because of its contaminants.

Crude oil production is expected to double in the next 15 years, to reach 1,292.3 million barrels of oil equivalent ("MMBpce") in 2032.

SNR Refined petroleum products production, forecast 2018-2032 (Thousand barrels of oil equivalent per day)

Petroleum Products	Annual Data Report														
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fuel oil	239.1	256.5	281.8	159.0	157.7	105.5	151.4	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9
Diesel	133.4	230.1	243.5	275.5	324.2	397.3	410.3	454.1	458.7	463.5	463.5	463.5	463.5	463.5	463.5
Gasoline	199.7	278.0	299.1	328.4	394.5	507.2	513.6	555.2	560.7	566.3	566.3	566.3	566.3	566.3	566.3
Turbosine	36.4	57.2	60.1	55.8	67.4	79.6	82.0	85.1	86.1	87.1	87.1	87.1	87.1	87.1	87.1
Pet Coke	12.3	21.6	22.1	45.3	53.0	86.3	91.7	116.1	117.3	118.5	118.5	118.5	118.5	118.5	118.5
Total	**621.0**	**843.5**	**906.6**	**864.0**	**996.9**	**1,176.0**	**1,249.0**	**1,267.4**	**1,279.7**	**1,292.3**	**1,292.3**	**1,292.3**	**1,292.3**	**1,292.3**	**1,292.3**

- Because the unit of measurement of some petroleum products is different from Kbpd and MMtpa, it is expressed in MMBpce (energy) to make them comparable and avoid the volume units.
- The total may not match the sum due to rounding
Source: SENER with information of IMP

Storage and Transportation of refined petroleum products

Prior to the provisions of the energy reform, Pemex Logística (PLOG), was the only company authorized to produce, transport, store and sell refined products.

The storage and transportation capacity of PLOG is shown in the following table:

Pemex Logística Infrastructure

Storage Terminals (TA)	73
Marine Storage Terminals (TM)	5
Port facilities	10
Oil Pipelines	5,259 km
Multi-Product Pipelines	8,883 km

Source: SENER with information of CRE and Pemex

The distribution logistics of refined petroleum products has its middle point in the storage terminals, from which finished product is sent to its retail locations to the public. This activity is carried out by trucks and is known as last mile transportation. This way, fuel is supplied to more than 12,000 gas stations and existing end users throughout the country.

As shown in the following table, Mexico has an operational storage capacity in maritime terminals of 8,589 thousand barrels distributed in the terminals of Pajaritos, Tuxpan, Madero, Salina Cruz and Guaymas. Of this domestic maritime terminals capacity, 77% is concentrated in the Gulf region, in the ports of Pajaritos and Tuxpan.

Marine Storage Terminals per region, October 2018

Region	TM	Nominal Capacity (barrels)	Operating Capacity (barrels)	Share of operating capacity (%)	Number of tanks
Northeastern	Madero	450,000	364,259	4	12
Gulf	Pajaritos	4,805,000	4,370,333	51	42
Southern	Salina Cruz	1,479,000	1,119,888	13	25
Gulf	Tuxpan	2,525,000	2,200,770	26	27
Northwestern	Guaymas	750,000	534,164	6	13
	Total	**10,009,000**	**8,589,414**	**100**	**119**

Source: SENER with information of CRE

The operational storage capacity of Pemex Logística's 73 storage terminals is summarized in the following table:

Region	Nominal Capacity (barrels)	Operating Capacity (barrels)	Number of tanks
Central	3,345,000	2,399,278	86
Gulf	1,168,500	798,676	67
Northeaste	1,958,500	1,418,284	84
Northwest	4,023,000	2,917,095	110
Northern	1,270,000	952,432	43
Western	3,350,000	2,398,206	104
Southern	804,500	566,272	52
Southeastern	693,500	521,376	26
Total	**16,613,000**	**11,971,619**	**572**

Source: SENER with information of CRE

Pipeline infrastructure for refined petroleum products

The transportation of refined petroleum products is one of the most important activities within the value chain of these products and is carried out through the pipeline network of Pemex Logística, which consists of 8,883 kilometers and a total operating capacity of 4,095 Kbpd. In 2017, 76% of the total volume of refined petroleum products was transported through pipelines.

Pemex Logística has six systems distributed in eight statistical regions of the country, with the Southern-Gulf-Central-Western system is the largest, with a length of 4,962 kilometers, it allows the flow of oil from the Gulf of Mexico to the Center of the country and the Bajío, as well as to the Pacific through the Istmo of Tehuantepec. The second is the Northern Zone system, with 3,152 kilometers, it has three cross-border pipelines for fuel imports. The remaining systems add 770 kilometers.

Pipeline transportation systems

#	System	Length (Km)	Nominal Capacity (brrls/day)	Operating Capacity (brrls/day)
1	Southern-Gulf-Central-Western Zone	4,961	3,479,200	3,272,200
2	Northern Zone	3,152	632,600	573,300
3	Guaymas	249	55,000	53,000
4	Rosarito	223	51,000	50,000
5	Topolobampo	223	68,000	68,000
6	Progreso	75	80,000	78,000
Total		**8,883**	**4,365,800**	**4,094,500**

Source: SENER with information of CRE

These systems consist of a total of 85 pipelines, classified as: 66 multi-product and bidirectional pipelines, 5 fuel oil pipelines, 5 jet fuel pipelines, 3 regular gasoline pipelines, 3 diesel pipelines and 3 premium gasoline pipelines.

New projects in storage, transportation and distribution terminals for refined petroleum products:

Following the energy reform and the consequent opening of private sector commercialization and infrastructure development, various projects have been initiated to increase competitiveness in the market. With regards to the further development of infrastructure for these projects, private investment has great advantages, given that for several years, Pemex has not built terminals or transportation pipelines for these products.

The development of infrastructure such as the Company's, seeks to provide companies that are independent of Pemex with the supply of imported refined petroleum products to increase, market competitiveness.

Based on the document "New Petroleum Product Storage, Distribution and Transportation Projects 2018" published by SENER on December 6, 2018, new petroleum storage, distribution and transportation projects are contemplated by the State.

The 65 storage projects have a total nominal capacity of 45.3 million barrels, located in 22 states of Mexico, will require a total estimated investment of USD$4,247 million.

The following table shows the distribution of the 65 projects as well as the nominal capacity and estimated investment:

State	# of projects	Nominal Capacity (Mb)	Estimated investment (million of Dollars)
Aguascalientes	1	224	45
Baja California	3	1,900	265
Chiapas	1	25	1
Chihuahua	1	130	13
Ciudad de México	1	3	0
Colima	4	3,382	205
Estado de México	7	6,170	191
Guanajuato	1	675	19
Hidalgo	3	1,590	49
Jalisco	1	50	40
Michoacán	2	2,275	404
Nuevo León	5	2,770	527
Puebla	2	870	107
Querétaro	2	576	60
San Luís Potosí	2	625	263
Sinaloa	1	1,000	150
Sonora	4	959	12
Tabasco	1	600	46
Tamaulipas	10	5,008	854
Veracruz	10	14,927	949
Yucatán	1	460	47
Durango	2	1,100	0
Total	**65**	**45,318**	**4,247**

Source: SENER New Petroleum Products Storage, Distribution and Transportation Projects *2018*

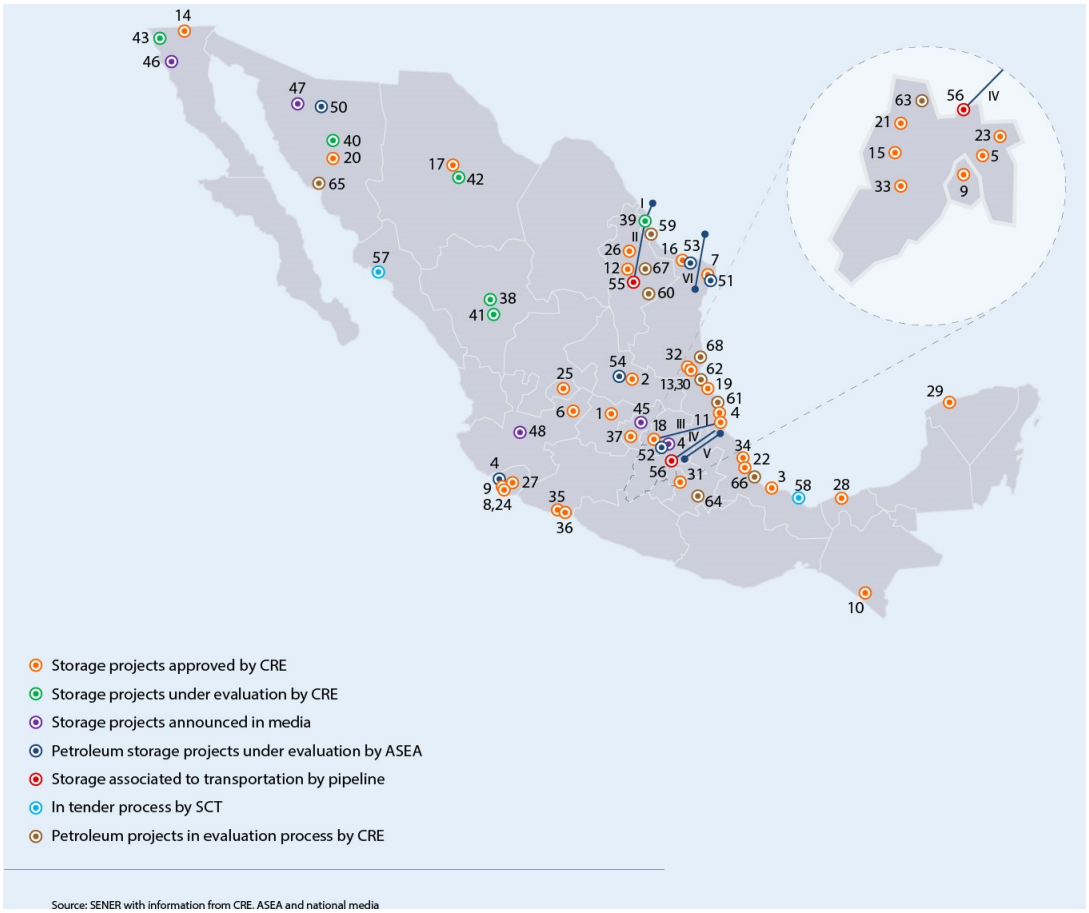
Among the new refined petroleum storage projects in the country, the Company is in the process of developing or constructing six of them, with a nominal storage capacity of 6.9 million barrels.

In the case of pipeline transportation, six new projects are forecasted, with an operating capacity of 400 Kbpd and an estimated investment of USD$2,751 million, as shown in the following table:

#	Corporate Name	Pipeline	Operating Capacity (Million of bpd)
I	Howard Energy Partners	Frontera con Texas - Nuevo Laredo	90
II		Nuevo Laredo, Tamaulipas - Área en Monterrey	
III	Invex	Tuxpan, Veracruz - Tula, Hidalgo	120
IV	Transcanada, Sierra Oil & Gas y TMM	Tuxpan, Veracruz - México Centro	90
V	Monterra Energy	Tuxpan, Veracruz - Tula, Hidalgo	100
VI	New Burgos Pipeline	Edinburg, Texas - Terminal de Burbos, Tamaulipas	N/D
TOTAL			**400**

Source: SENER New Petroleum Products Storage, Distribution and Transportation Projects 2018

New storage and pipeline transportation projects are distributed across Mexico as shown below:



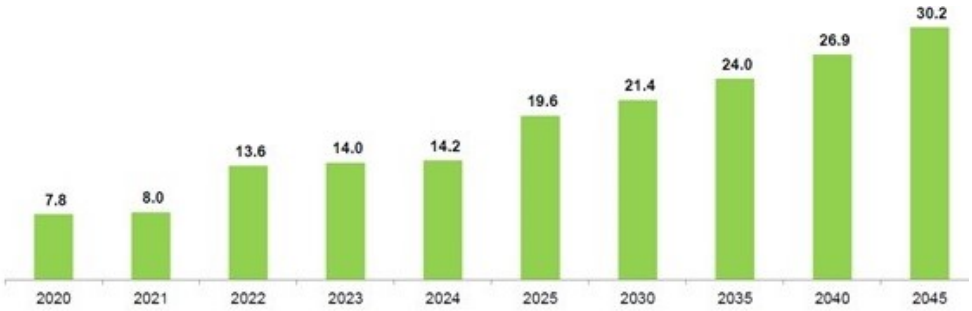
In order to supply the country's population, the refined petroleum products produced or imported are transported from their point of origin, which can be a refinery, a maritime terminal (TM) or an importation point, to the storage terminals (TA) to supply gas stations.

Public storage policy

Currently, the country has approximately three days of inventories of gasoline, jet fuel and diesel.

The Public Policy of Minimum Petroleum Product Storage, published by SENER, seeks to stimulate the development of infrastructure that offers greater energy security by establishing a minimum of 5, 8 and 11 days of inventory for the years 2020, 2022 and 2025, respectively.

Policy's required storage capacity, 2020-2045 (million barrels)



- Includes 10% of required capacity liquid usually with sediment or impurities, which remains in the bottom of a container
- The operative capacity in the storage terminals (Pemex and third parties) as of June 2017, it is 13.2 million barrels.

Source: Estimated by Ministry of Energy with information from CRE]

The prospects presented, pose an opening in the sector through public-private partnerships. These investments are intended to stop the continuing decline in production, as well as the increase oil production which can lead to an increase in refined petroleum products.

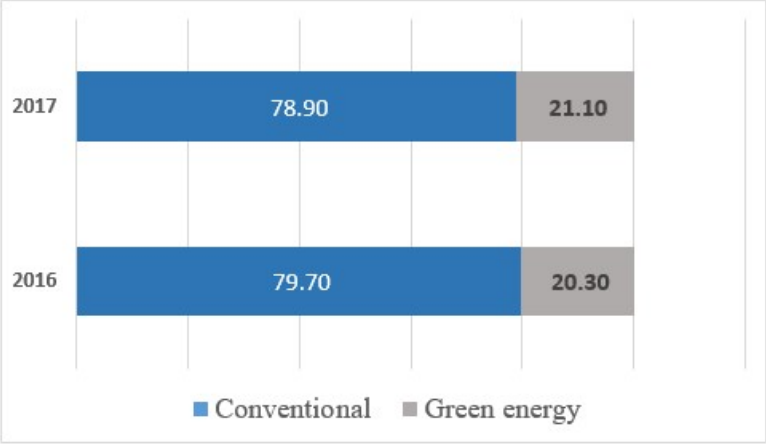
The Mexican Power Generation Sector

Before the energy reform, private participation was only permitted in non-public service activities, such as IPP and Self-Supply. As a result of the energy reform, the private sector in Mexico, subject to certain regulations, is allowed to participate in most of the electrical industry production chain. The private sector can participate in construction and operation of power plants, commercializing electricity, competing in the wholesale market and/or directly supplying the production sector. Although transmission and distribution of electric energy will be controlled by the Mexican state, the private sector can participate in these activities through service contracts. Electricity retail (for small and medium size customers) will remain exclusively for the CFE, while qualified users (large customers with more than 1 MW of demand) may purchase electric energy from any power generator through a regulated wholesale electric market. According to the Electrical Sector Prospective 2018-2032, the CFE provided electricity to 42.2 million users in 2017, of which, 55.5% were from the industrial sector.

At the end of December 2017, power generation was 329 GWh, 3.1% higher than the previous year, compared to 2016, conventional power generation increased 2.1% and clean energy generation increased 7% mainly from 1.5% wind generation and from 114.5% solar generation. Out of the total generation, 52.7% came from CFE's power plants, 25.3% from the private sector and 17.5% from IPPs.

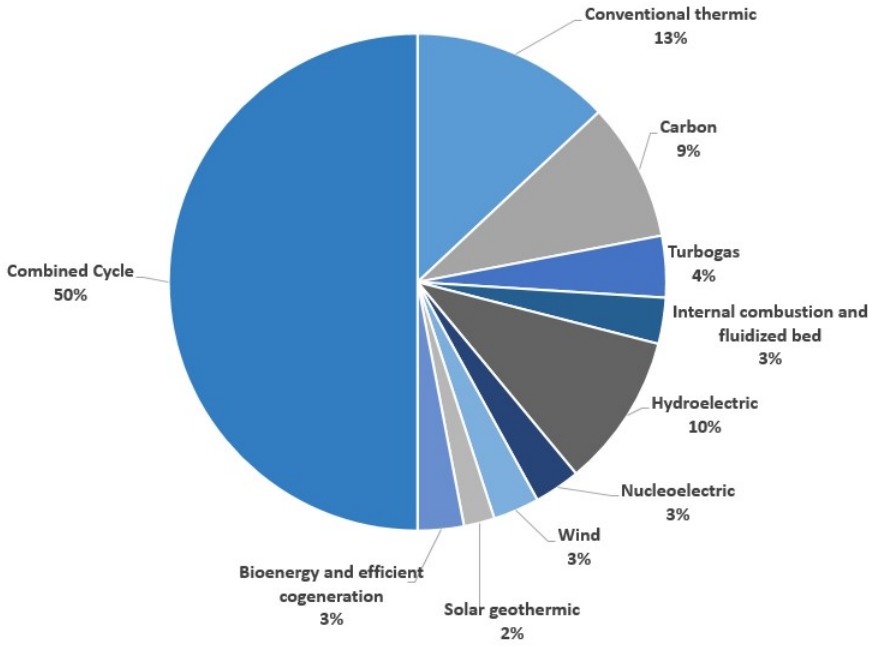
As of January 2019, CRE has authorized 1,399 power generation permits, of which, 821 were granted under the previous power generation permit law and 578 were granted under the new law (163 from CFE), which represents a high interest in the Mexican electrical market. Increase in generation capacity has stimulated investments in the transmission lines and substations.

The following chart depicts 2016 and 2017 conventional and clean energy generation percentages:



Source: Elaborated by SENER with data from CFE, CRE, CENACE and the Energy Planning and Transition Undersecretary. Preliminary information 2017

The following chart shows power production by technology during 2017 (Percentage):



Note: Gas turbine includes mobile plants. Includes Distributed wind Generation (GD). Shared Risk Trust fund (FIRCO), Distributed Solar or hybrid and Regenerative Brakes (FR) Generation (GD). Includes Distributed Bioenergy Generation (GD). Totals may no match due to rounding. Preliminary information 2017. Source: Elaborated by SENER with data from CFE, CRE, CENACE and the Energy Planning and Transition Undersecretary.

Before energy reform, in addition to the Independent Energy Producer program, private sector could participate in cogeneration, self-supply, importing, exporting and low-level energy production (less than 30 MW of electric energy for sale to CFE or for exportation). Every energy generation project requires a CRE permit, with the understanding that

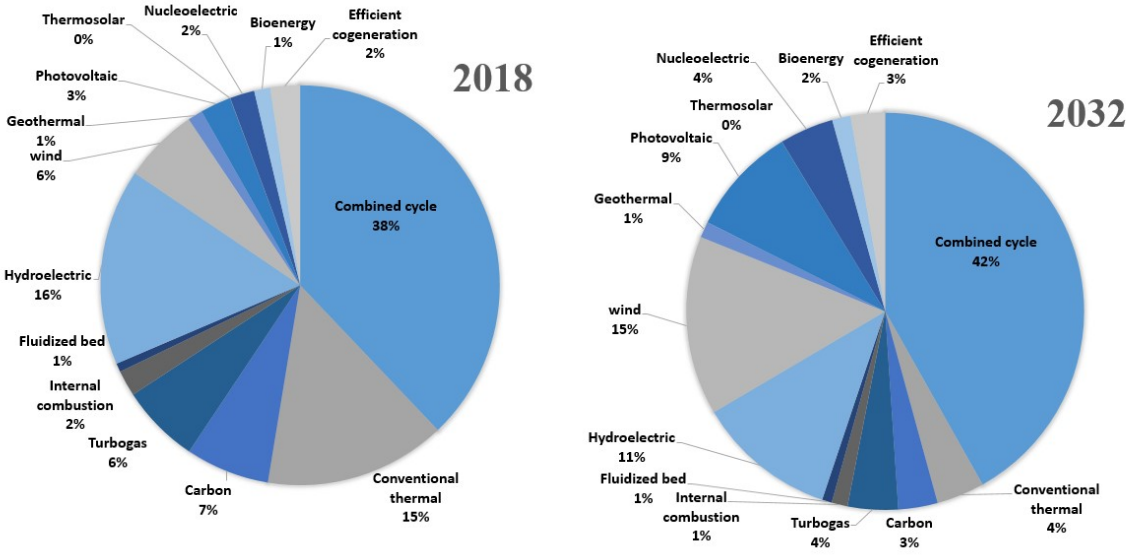
energy generation capacity will equal or exceed 0.5 MW. These contracts were known as “Legacy Contracts” as they are regulated under the previous law. These contracts have the option of maintaining benefits and obligations from the previous law or totally/partially migrating to the new law.

The following table shows 2017 overall capacity by category:

Modality	Total capacity	Participation (%)
Modalities in accordance with LSPEE[1]		
CFE	366	0.5%
Independent Producer	13,247	17.5%
Self-supply	9,994	13.2%
Low-level Production	94	0.1%
Cogeneration	4,042	5.3%
Exports	1,358	1.8%
Own Continuous Use	477	0.6%
Modalities according to the (LIE)[2]		
CFE - Generator	42,934	56.7%
Generator	2,700	3.6%
Otros		
FIRCO and GD[3]	474	0.6%
Total[4]	75,685	100%

Notes: [1] Public Electric Energy Service Law. [2] Electric Industry Law. [3] FIRCO: Shared Risk Trust Fund and GD: Distributed Energy Generation.[4] The totals may not add up due to rounding. Source: Elaborated by SENER with data from CFE, CRE, CENACE and the Energy Planning and Transition Undersecretary.

The following charts show the installed capacity evolution by type of technology 2018 - 2032:



Source: PRODESEN 2018 - 2032, issued by SENER

As shown in the following image, 64% of total operational capacity net growth is expected, from 75 gigawatts in 2018 to 130 gigawatts in 2032, considering 11.8 gigawatts retirement:

INSTALLED CAPACITY EVOLUTION BY TECHNOLOGY TYPE 2018-2032
(Megawatt)

Technology	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Conventional	**54,492**	**58,244**	**56,066**	**56,231**	**57,471**	**58,842**	**59,928**	**61,254**	**63,423**	**64,448**	**66,182**	**67,037**	**67,849**	**69,649**	**71,804**
Combined Cycle	30,125	33,726	34,281	35,155	36,870	40,586	41,243	42,569	44,708	45,776	47,510	49,765	50,577	52,377	54,532
Conventional thermal	11,712	11,712	8,296	7,476	7,156	5,120	5,120	5,120	5,120	5,120	5,120	5,120	5,120	5,120	5,120
Carbon	5,378	5,507	5,507	5,507	5,507	5,507	5,507	5,507	5,507	5,507	5,507	4,107	4,107	4,107	4,107
Turbogas	5,062	5,062	5,746	5,746	5,663	5,311	5,311	5,311	5,341	5,298	5,298	5,298	5,298	5,298	5,298
Internal combustion	1,635	1,657	1,657	1,768	1,695	1,738	1,706	1,706	1,706	1,706	1,706	1,706	1,706	1,706	1,706
Fluidized bed	580	580	580	580	580	580	1,041	1,041	1,041	1,041	1,041	1,041	1,041	1,041	1,041
Green energy	**25,007**	**29,193**	**31,903**	**34,587**	**37,397**	**39,253**	**42,282**	**43,823**	**45,089**	**46,961**	**48,303**	**51,147**	**54,106**	**56,682**	**58,487**
Renewable	20,453	24,638	27,348	29,992	32,561	34,048	36,808	38,349	39,059	40,552	41,770	42,591	44,190	45,406	47,211
Hydroelectric	12,642	12,671	12,671	12,671	12,671	12,671	13,135	13,198	13,198	13,244	13,676	13,747	14,393	14,393	14,856
Wind	4,875	6,591	8,128	8,862	11,231	12,417	14,414	15,530	15,750	16,600	16,903	17,303	17,656	18,267	19,017
Geothermal	951	936	906	891	891	891	891	917	1,067	1,317	1,450	1,450	1,550	1,655	1,708
Solar Photovoltaic	1,971	4,426	5,630	7,555	7,755	8,055	8,355	8,691	9,031	9,377	9,727	10,077	10,577	11,077	11,617
Thermosolar	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Others	4,554	4,555	4,555	4,595	4,836	5,206	5,474	5,474	6,030	6,410	6,533	8,556	9,916	11,276	11,276
Nucleoelectric	1,608	1,608	1,608	1,608	1,608	1,608	1,608	1,608	1,608	1,608	1,608	2,968	4,329	5,689	5,689
Bioenergy	1,010	1,010	1,010	1,050	1,291	1,577	1,725	1,725	1,823	1,823	1,947	1,947	1,947	1,947	1,947
Efficient cogeneration	1,930	1,931	1,931	1,931	1,931	2,014	2,134	2,134	2,592	2,972	2,972	3,634	3,634	3,634	3,634
Regenerative brakes	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Total	**79,499**	**87,436**	**87,969**	**90,818**	**94,868**	**98,095**	**102,210**	**105,077**	**108,512**	**111,409**	**114,486**	**118,184**	**121,955**	**126,331**	**130,292**

Source : SENER

At the end of 2017, three long-term wholesale electricity market auctions took place, CENACE awarded 20.6 million clean energy certificates, 19.8 million MWh of energy and 1.8 GW of capacity, which represents a USD$9 billion investment between 2016 and 2020. The contracts have a 15-year term for capacity and energy, and a 20-year term for clean energy certificates. These power generation plants will contribute to meet the 35% clean energy generation goal by 2024.

In March 2018, CENACE and CRE announced the fourth long-term wholesale electricity market auction, which is currently under review by the new administration of the Basic Services Supplier, CENACE and the Ministry of Energy.

Sources of renewable energy

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

Mexico has a wide variety of renewable sources of energy, including wind, geothermic, solar and hydroelectric energy. The country is especially rich in wind and solar resources. The Mexican Wind Energy Association estimates that since 2004, the country has invested approximately USD$6.9 billion, resulting in 3,527 MW of capacity, which is expected to grow to 12,000 MW between 2020 and 2022.

In 2016 and 2017, renewable energy sources were 28.8% and 29.5% of Mexico's installed electric energy generation capacity, which represents an increase of 10.2% and 2.4% from 2015 to 2016 and 2016 to 2017, respectively.

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

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

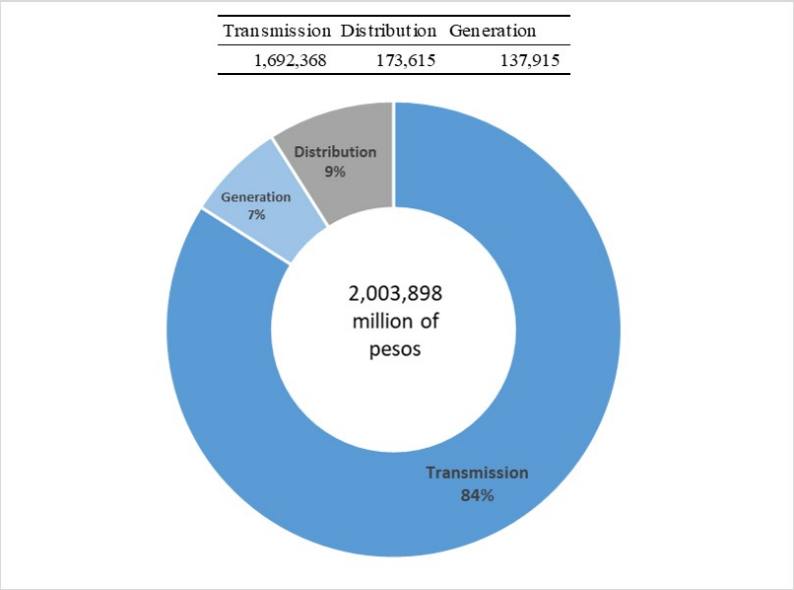
Concerning the energy reform, certain obligations from the use of clean energy became applicable to the participants in the electric energy market. Clean energy certificates, or CELs, will be issued to "clean energy generating companies". The electric energy generators may receive a clean energy credit for each MWh generated in clean energy plants. These certificates will be negotiated through the wholesale electricity market, long-term bilateral contracts and in the spot market. Starting 2018, the use of clean energy is mandatory. The Ministry of Energy has established that at least 5% of energy used must come from clean energy sources and the deficit should be compensated with CELs. In addition, the Ministry of Energy has stablished that by 2019, at least 5.8% of energy must come from clean energy sources and the deficit be compensated with CELs and respectively, 7.4% by 2020, 10.9% by 2021 and 13.9% by 2022.

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

The growth of the national natural gas and electric energy sectors

The SENER and the CENACE estimate that electricity demand will continue to grow by an annual average of 3.1% between 2018 and 2032. As a result, the present infrastructure is insufficient to meet the country's future requirements for electricity supply, consequently, the expansion of gas pipeline systems and energy storage infrastructure will be necessary. To meet these needs, new generation capacity of 56 GW will be required, as well as major investments in transmission and distribution. An average annual investment of USD$7.0 billion per year is expected.

The following graph shows the estimated annual investment through 2032, in millions of Mexican pesos.



Source: SENER

According to the Natural Gas Prospect for 2018-2032, in 2018 the demand for natural gas was 7.6 MMcfd. By 2032, the demand for natural gas will be 9.9 MMcfd, which represents an increase of 30.3% from 2017.

In addition, during the next 15 years, national electric energy demand is forecasted to reach a compound annual growth rate of 3.2%, and the maximum demand in the interconnected system is expected to grow 3.2% nationally, 3.4% in Baja California Norte and 3.6% in Baja California Sur.

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

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

Industry Outlook

Mexico has abundant reserves of petroleum and natural gas, yet strong economic growth is causing energy demand to outpace the country's ability to generate additional supply. Historical under-investment in exploration and production has limited supply, and budgetary constraints related to major projects such as natural gas pipelines, transmission lines, and power plants have hindered the development of energy infrastructure.

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

According to the Mexican Ministry of Energy (*SENER*) in its Five-Year Plan for the Expansion of the National Natural Gas Integrated Transportation and Storage System, 2015-2019, over the next five years Mexico will build additional pipelines with an aggregate length of 3,081 km, which will require an aggregate investment of approximately USD$4.6 billion.

New estimates for the business sector, could be issued by the entities and authorities mentioned in this section.

Regulatory Outlook

In Mexico, both the natural gas and power sectors are regulated and include a high level of participation by the Mexican government. In the power segment, until the amendment of the legal framework for the regulation of the Mexican energy sector, the Mexican Federal Electricity Commission was a decentralized agency of the Mexican government and was responsible for all planning activities relating to the Mexican power grid and for generating, transmitting, distributing and selling electricity in Mexico. As a result of such amendment, the Mexican Federal Electricity Commission is now an independently-managed company that is 100% owned by the Mexican Government. In addition, under the new legal framework the Mexican government, through the newly created CENACE, has exclusive control over the Mexican power grid and all related planning activities. CENACE also serves as an independent system operator of the Mexican wholesale electricity market.

In the natural gas segment, Pemex together with its subsidiaries, including Pemex TRI, has also become an independent company that is 100% owned by the Mexican Government. The amendment of the legal framework for the regulation of the Mexican energy sector was intended primarily to allow Pemex to focus on profitable exploration and production activities while attracting foreign investment, and to allow Pemex to stimulate the whole energy industry from upstream to retail distribution: oil and gas as well as power and utilities.

The legislative changes that took place in Mexico in the 1990s created significant investment opportunities for the private sector from 1995, when regulatory reform allowed private sector participation in the natural gas midstream (storage and transportation) and downstream (retail distribution) sectors.

In the power segment, since the nationalization of the Mexican electricity industry in 1960 until 1992, the Mexican Federal Electricity Commission had been solely responsible for power generation in Mexico. The 1992 reforms and 1997 legislation allowed IPPs to build and operate power generation plants for self-consumption or to export the electricity generated or sell it to the Mexican Federal Electricity Commission under long-term agreements at fixed prices. IPPs operate under long-term (typically 25-year) build-own-operate contracts. A majority of IPPs receive their natural gas supply from the Mexican Federal Electricity Commission under long-term contracts that match their operating term. The recently enacted Mexican Law for the Electricity Industry allows the private sector to generate and market electricity, subject to the receipt of a permit under a regulated open market. See "Legal Framework and Taxation."

Natural Gas and Power Demand Outlook

The CFE power plants generated 52% of the electricity in 2017. The Independent Power Producers generated 27.6% and the remaining 21.3% was contributed by private electricity generators such as self-supply, cogeneration, small production, exports, own continuous use, Distributed Generation and non-interconnected rural systems reported by Shared Risk Trust Fund. In Mexico, the combined cycle is the predominant electricity generation technology. There are currently 83 power plants with a total installed capacity of 28,084 MW, equivalent to 37% of the national installed capacity. The electricity generated in 2017 reached 165,245 GWh, which represented 50% of the country's electrical generation in 2016.

Based on the expected progress in the generation of electricity, the natural gas consumption will increase at an average annual rate of 2.4%, so by 2032 it will reach 63% of the total consumption of fossil fuels required for the production of electricity. From 2018 to 2022 a more dynamic growth of natural gas consumption is expected, derived from the incorporation of 9.2 GW of combined cycle projects that will be fully operational by 2021, representing 47% of the total additional capacity of this technology to be installed in the period from 2018 to 2032. Once the 6 gas pipelines in the national network that are currently under construction and estimated to start commercial operation in 2019 are placed in service, the natural gas transport capacity will increase annually by 3,200 MMcfd.

Natural Gas Supply Outlook

Despite its formidable gas reserves and its geographical location in a part of the world with vast reserves, due to the lack of infrastructure for natural gas transportation and its relatively low levels of extraction, in 2017, it was register an import volume of 4.8bcf that represented an increase of 15.5% compared to the last year. These imports represented about 63% of the country's demand in 2017. As the result of the increased demand for natural gas, the National Pipeline System (which prior to the recent energy reforms was controlled by Pemex TRI) has proved limited in its capacity, posing a major threat of interruption of the supply of natural gas to consumers.

Competition Outlook

In general terms, the Mexican energy industry is highly concentrated in a few key players that account for a significant portion of each market segment. In the natural gas pipeline market, the four largest companies control almost 85% of the market. The Company controls 38% of the total market (in terms of design capacity).

The Competition

The Gas Segment

The Gas Pipeline Business

The Company's main competitors in the natural gas pipeline business are TransCanada, Kinder Morgan, Engie, Fermaca, Simsa and Grupo Carso. These competitors could participate in the development of projects that compete with those the Company is seeking to develop and participate in bidding processes that could be carried out by a government entity.

The LNG Business

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

The Natural Gas Distribution Business

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

Apart from the above, since the twelve-year exclusivity period for the distribution territories expired in 2011 and the recent creation of the unique geographical area, which will allow natural gas distributors to expand their networks in any part of the Mexican territory, the Company could face strong competition from other natural gas distributors.

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

Refined petroleum products

Among the new refined petroleum storage projects in the country, the Company is in the process of developing or constructing six refined petroleum products storage projects, of which, four are maritime and two in-land storage terminals, with a nominal storage capacity of 6.9 million barrels. Like the Company, other companies such as Grupo Simsa, Valero, Vopak, among others are developing their own infrastructure to guarantee efficiency in the national refined petroleum logistics.

The Electric Energy Segment

The Company is currently competing in different energy generation segments as described below:

Solar Parks

During 2016, as a result of the participation in bidding processes, the company competed in the second long-term wholesale market auction and won two solar projects: "Tepezalá Solar" and "Rumorosa Solar".

Additionally, the Company also focuses on bilateral contracts. In 2017, DeAcero selected the Company to formalize a 20-year electricity supply contract that will be generated from the new photovoltaic solar plant Pima Solar located in the municipality of Caborca, Sonora. In 2018, the Company executed 15-year electricity supply contracts with Liverpool, Scotiabank and Autlán, the energy will be generated by the portfolio of solar projects, currently under construction.

These actions are aligned with the Company's firm commitment to the development of energy infrastructure in country and reinforces the Company as a leader in Mexico in the generation of clean energy.

In this sector, IEnova has a 7% market share in Mexico, whereas competing companies participate as follows: Enel 19%; Engie 15%; X-Elio 12% and Sunpower 12%. These are the most representative competitors.

Wind Parks

Regarding Energía Sierra Juárez, located in Tecate, Baja California, all the electricity generated from the first phase of the project is sold to one of the Company's affiliates in the United States. The company competes directly with other generators and marketing companies who serve in the same regional markets where it operates. These competitors may include government owned energy-producing companies, local dealers with their own generating capacity and other private companies dedicated to electric energy generation and marketing.

In Mexico, the major wind generation competitors are: Enel, who has a presence in Nuevo Leon, Tamaulipas, Tlaxcala and Coahuila; Cúbico, in Nuevo León; Acciona, in Tamaulipas and Oaxaca; and Iberdrola with 5 wind parks located in Puebla y Oaxaca. The Company's project, Ventika, is not exposed to market prices as its capacity is practically fully contracted.

The key elements comprising competition are price, availability, terms of service, flexibility and reliability. The supply and demand for electric energy are affected by the performance of the economy in general, conservation measures, legislation, environmental regulations, weather conditions and the expansion of generation capacity, among other factors.

Combined Cycle

Regarding Termoeléctrica de Mexicali's operation, it sells energy assigned by the California Independent System operator to the wholesale market. TDM competes daily with other generation companies that supply energy in the same market.

ix) Corporate Structure

IEnova is a holding Company and direct or indirect owner of following subsidiaries:

a. **Gas Segment**

Company / Subsidiary	Ownership percentage (%)
Ecogas México, S. de R.L. de C.V.	100.00
IEnova Gasoductos México, S. de R.L. de C.V.	100.00
Gasoducto de Aguaprieta, S. de R.L. de C.V.	100.00
IEnova Gasoductos Holding, S. de R.L. de C.V.	100.00
Energía Costa Azul, S. de R.L. de C.V.	100.00
IEnova Marketing, S. de R.L. de C.V.	100.00
Ductos e Infraestructura Marina, S. de R.L. de C.V.	100.00
IEnova Pipelines, S. de R.L. de C.V.	100.00
Gasoductos de Tamaulipas, S. de R.L. de C.V.	100.00
Gasoductos del Noreste, S. de R.L. de C.V.	100.00
Transportadora del Norte SH, S. de R.L. de C.V.	100.00
TDF, S. de R.L. de C.V.	100.00
Ductos y Energéticos del Sureste, S. de R.L. de C.V.	100.00
Gasoductos del Sureste, S. de R.L. de C.V.	100.00
Gasoductos Servicios Subholding, S. de R.L. de C.V.	100.00
Gasoductos Servicios Corporativos y de Administración, S. de R.L. de C.V.	100.00
Ductos y Energéticos del Norte, S. de R.L. de C.V.	100.00
IEnova Infraestructura Marina Holding, B.V.	100.00
IEnova Gasoductos Holding, LLC	100.00
Sempra Ecogas Holdings, LLC	100.00
TAG Norte Holding, S. de R.L. de C.V.[1]	0.00011
TAG Pipelines Norte, S. de R.L. de C.V. [2]	0.00011
Infraestructura Marina del Golfo, S. de R.L. de C.V.	40.00
IEnova Petroleum Liquids Holding, B.V.	100.00
Gasoductos Servicios Corporativos, S. de R.L. de C.V.	100.00
IEnova Gas, S. de R.L. de C.V.	100.00
IEnova Petrolíferos Holding, S. de R.L. de C.V.	100.00

IEnova Petrolíferos III, S. de R.L. de C.V.	100.00
IEnova Petrolíferos IV, S. de R.L. de C.V.	100.00
IEnova Petrolíferos V, S. de R.L. de C.V.	100.00
IEnova Petrolíferos VI, S. de R.L. de C.V.	100.00
ESJ Renovable III, S. de R.L. de C.V.	100.00
Servicios DGN de Chihuahua, S.A. de C.V.	100.00
Servicios Energía Costa Azul, S. de R.L. de C.V.	100.00
Gasoductos Ingeniería, S. de R.L. de C.V.	100.00
ECA Liquefaction, S. de R.L de C.V	100.00
ICM Ventures Holding, B. V.	51.00
TP Terminals, S. de R. L. de C.V.	51.00
ECA Minority, S. de R. L. de C. V.	100.00
ECA LNG Holdings, B. V.	50.00

b. **Power Segment**

Company / Subsidiary	Ownership percentage (%)
Termoeléctrica de Mexicali, S. de R.L. de C.V.	100.00
Termoelectrica US, LLC	100.00
Controladora Sierra Juárez, S. de R.L. de C.V.	100.00
IEnova Ventika Holding, B.V.	100.00
IEnova Ventika Holding II, B.V.	100.00
IEnova Ventika México, S. de R.L. de C.V.	100.00
IEnova Ventika México II, S. de R.L. de C.V.	100.00
Ventika, S.A.P.I. de C.V.[3]	100.00
Ventika II, S.A.P.I. de C.V.[4]	100.00
ESJ Renovable I, S. de R.L. de C.V.	90.00
ESJ Renovable II, S. de R.L. de C.V.	100.00
Ventika Energy B.V.	100.00
IEnova Renewable Holding II, B.V.	100.00
Energía Sierra Juárez, S. de R.L. de C.V.[5]	0.0018
Energia Sierra Juarez US, LLC	100.00
Energia Sierra Juarez US Transmission, LLC	100.00
Energia Sierra Juarez 2, US, LLC	100.00
Energía Sierra Juárez 2, S. de R.L. de C.V.	100.00
Energía Sierra Juárez Holding, S. de R.L. de C.V.	100.00
Servicios ESJ, S. de R.L. de C.V.	50.00
ESJ Energy B.V.	100.00
Don Diego Solar Holding, S. de R.L. de C.V.	100.00
Don Diego Solar, S.A.P.I. de C.V.[6]	100.00
Servicios Termoeléctrica de Mexicali, S. de R.L. de C.V.	100.00
Central Fotovoltaica Border Solar Norte, S. A. de C.V.[7]	100.00
Don Diego Solar Netherlands, B. V.	100.00
IEnova Suministro Calificado, S. de R.L. de C.V.	100.00

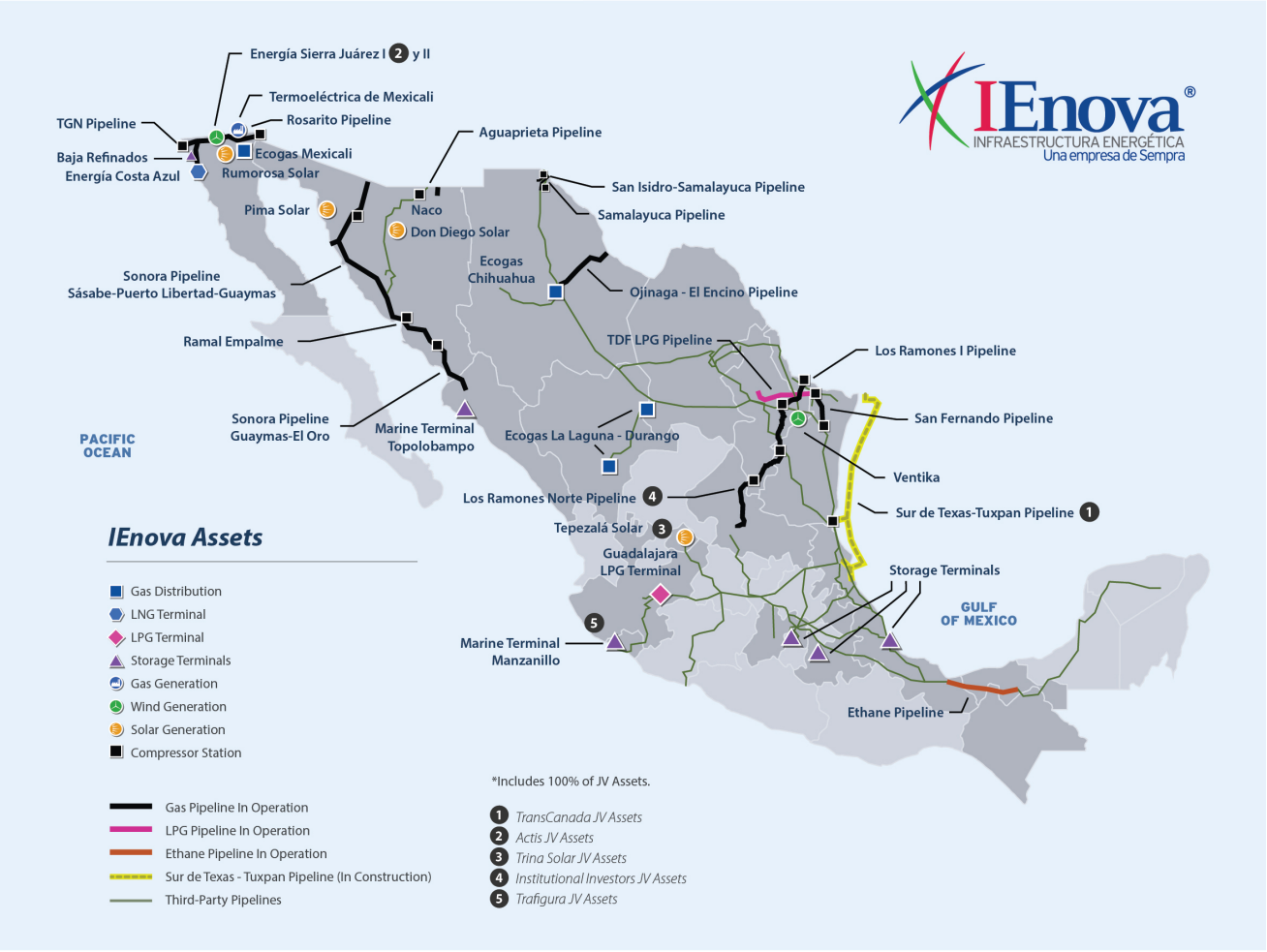
c. **Corporate Segment**

Company / Subsidiary	Ownership percentage (%)
IEnova Holdco, S. de R. L. de C. V	100.00
Fundación IEnova, A.C.	100.00
Inmobiliaria IEnova, S. de R. L. de C. V.	100.00

1. IEnova owns 0.00011% through its subsidiary Ductos y Energéticos del Norte, S. de R.L. de C.V, 99.99978% are pledged in a trust in Deutsche Bank México and the remaining shares are owned by external companies.
2. Ídem
3. All shares are pledged in a trust in Banamex, the subsidiary IEnova Ventika México, S. de R.L. de C.V., is trustor and trustee in second place of 70% of such shares, the subsidiary Ventika Energy B.V. is trustor and trustee in second place of 30% of such shares. Series "C" shares exist for self-supply of energy. Cemex, DeAcero, Oxxo, among others, own this kind of shares.
4. All shares are pledged in a trust in Banamex, the subsidiary IEnova Ventika México II, S. de R.L. de C.V., is trustor and trustee in second place of 70% of such shares, the subsidiary Ventika Energy B.V. is trustor and trustee in second place of 30% of such shares. Series "C" shares exist for self-supply of energy. Cemex, DeAcero, Oxxo, among others, own this kind of shares.
5. IEnova owns 0.0018% through its subsidiary Controladora Sierra Juárez, S. de R.L. de C.V., the remaining shares are pledged in a trust in CI Banco.
6. Series "C" shares exist for self-supply of energy. DeAcero, Liverpool, Scotiabank, Autlán, IEnova's subsidiaries, among others, own this kind of shares.
7. Series "BN" shares exist for self-supply of energy. Scotiabank, Autlán and IEnova's subsidiaries own this kind of shares.

x) Description of the Company's main assets

The following map shows the location of the Company's main assets:



Gas Segment

Gas segment includes (1) the Company's pipelines business, which owns and operates systems for receiving, transporting, storage and delivery of natural gas, ethane and LPG, (2) the Company's LNG business, which owns and operates an LNG storage and regasification terminal, and also purchases LNG and sells natural gas to its customers, and (3) the natural gas distribution business, which distributes natural gas to more than 122,000 residential, commercial and industrial customers in northern Mexico. A more detailed description of each of the businesses within gas segment follows.

Pipeline and LPG Storage Business

Overview

The Company's pipeline business owns and operates systems for receiving, transporting, storing and delivering natural gas, LPG and ethane, including more than 2,900 km of natural gas pipelines (of which approximately 800 km are under construction), 224 km of ethane pipelines, 190 km of LPG pipelines, twelve natural gas compression stations and three under construction with an aggregate of over 588,810 horsepower, and an 80,000 bl LPG storage facility near Guadalajara. These assets are located in the states of Baja California, Chiapas, Chihuahua, Durango, Jalisco, Nuevo León, Sinaloa, Sonora, San Luis Potosí, Tabasco, Tamaulipas and Veracruz.

The Company's current pipeline assets include the Rosarito pipeline system, the TGN pipeline, the Aguaprieta Pipeline, the Naco Compression Station, the Sonora Pipeline, the Ojinaga–El Encino pipeline, the San Isidro – Samalayuca pipeline, the Empalme Lateral pipeline, the San Fernando pipeline, Samalayuca pipeline, Los Ramones I pipeline, TDF LPG pipeline, Gloria a Dios compression station, Guadalajara LPG terminal, Ethane pipeline and through joint ventures, Los

Ramones Norte pipeline and the South of Texas – Tuxpan pipeline (where the Company expects to commence commercial operations in the second quarter of 2019).

The Company's natural gas pipeline assets have an aggregate design transportation capacity of over 16,501 MMcfd (171.6 MMThd). The ethane pipeline has a design transportation capacity of approximately 52 MMcfd (0.6 MMThd) in the first segment, approximately 152 MMcfd (1.8 MMThd) in the second segment, both as ethane gas, and approximately 106,000 bpd (3.1 MMThd) in the third segment as ethane liquid. The Company's LPG pipeline has a design transportation capacity of 34,000 bpd (1.9 MMThd). Upon its completion, the Company's pipelines business will also include the South of Texas-Tuxpan pipeline, which will add approximately 800 km of natural gas pipeline infrastructure and a design natural gas transportation capacity of approximately 2,600 MMcfd (27.0 MMThd).

The majority of the Company's pipelines, compression stations and storage facilities have long-term fixed- capacity contracts with leading industry players, including Shell, Gazprom, CFE, Saavi Energía, TransCanada and CENAGAS, as assignee of Pemex TRI.

Pipelines Firm Transportation Services Agreements

The Company has entered into long-term firm transportation services agreements with various customers with respect to all of the Company's pipelines, which are the key revenue generating contracts for the Company's pipelines business. Pursuant to these contracts the Company is obligated to provide to its customers, and the Company's customers are required to pay the Company for, natural gas transportation service for up to certain maximum daily quantities of natural gas or LPG, as applicable. Each customer pays a monthly fee consisting of a fixed reservation component and a variable component based on the amount of natural gas delivered, plus reimbursement for expenses related to the transportation services that the Company provides. The fixed reservation component of these fees account for the substantial majority of the Company's revenues under these agreements and must be paid by the Company's customers whether or not they use their contracted capacity.

The majority of these agreements have U.S. Dollar-denominated fixed rates that are lower than those authorized by the CRE. The Energy Regulatory Commission (*CRE*) establishes (and periodically adjusts) the maximum rates that we may charge to users that have not agreed upon a lower rate with us. For agreements that reflect the maximum rate allowed by the CRE, the fee is adjusted annually to account for inflation and changes in the U.S. Dollar- Mexican peso exchange rate in accordance with the Prices and Tariffs Directive (*Directiva de Precios y Tarifas*) established by the CRE.

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

Pipeline assets and LPG storage

The following table contains a summary of natural gas, ethane and LPG assets in operations or under construction, as of December 31, 2018, including those in which the Company participates through a joint venture.

Assets	% share	Length of system (km.)	Design capacity (MMcfd)	% of long-term capacity contracted [1]	Compression available (in HP)	Date Commercial Operations Begun
Natural Gas Transportation						
Rosarito Pipeline System	100%	302[2]	1,434[2]	82%[9]	32,500 [14]	August 2002
TGN Gas Pipeline	100%	45	940	100%	8,000	June 2000[3]
Aguaprieta Pipeline	100%	13	200	25%[10]	N/A	November 2002
Naco Station	100%	N/A	90	100%	14,340	September 2001
Sonora Pipeline (Sasabe - P. Libertad - Guaymas) (Guaymas - El Oro)	100%	835	 770 510	100%	21,000-11,000[5]	 December 2014 May 2017[4]
San Fernando Pipeline	100%	114	1,460	100%	95,670	November 2003
Samalayuca Pipeline	100%	37	400	50%	14,300[13]	December 1997
Los Ramones I Pipeline	100%	116	2,100	100%	123,000	December 2014
Ojinaga – El Encino Pipeline	100%	220	1,356	100%	N/A	June 2017
Los Ramones Norte Pipeline[6]	50%	452	1,420	100%	123,000	February 2016
San Isidro – Samalayuca Pipeline	100%	23	1135	100%	46,000	March 2017
South Texas–Tuxpan Pipeline [7]	40%	800	2,600	100%	100,000	Second quarter 2019
Empalme Lateral Pipeline	100%	20	226	100%	N/A	June 2017
Ethane Transportation						
Ethane pipeline	100%	224	52/152/106,000 bpd [11]	100%	N/A	December 2015
LPG Transportation						
TDF Pipeline	100%	190	34,000 bpd[8]	100%	N/A	December 2007
LPG Storage						
LPG Guadalajara Terminal	100%	N/A	80,000 bpd	100%	N/A	December de 2013

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

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

(3) The TGN pipeline includes an expansion that began operation in February 2008.

(4) The Sásabe-Puerto Libertad-Guaymas section of Sonora pipeline began commercial operations in December 2014 and the Guaymas-El Oro segment began commercial operations in May 2017. The Guaymas-El Oro segment of the Sonora pipeline has been out of service since August 23, 2017. See "Risk Factors-Risks Relating to the Company's Business and the Company's Industry-Natural disasters, accidents, acts of terrorism or criminality could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities."

(5) Compression stations under design.

(6) Joint venture with BlackRock.

(7) In construction through IMG, the joint venture with TransCanada.

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

(9) In 2018, Rosarito Pipeline had more than 97% of its capacity under the firm base reservation.

(10) 25% of the contracted long-term capacity. If additional, non-long-term contracts are included, the contracted capacity of the Aguaprieta Pipeline is 65%.

(11) Approximately 52 MMcfd (0.6 MMThd) in the first segment, approximately 152 MMcfd (1.8 MMThd) in the second segment, both as ethane gas, and approximately 106,000 bpd (3.1 MMThd) in the third segment as ethane liquid.

(12) Includes La Jovita compression station.

(13) Includes Gloria a Dios compression station, COD October 2001.

Rosarito Pipeline system

The Rosarito Pipeline system in Baja California is comprised of three pipelines of approximately 302 km in aggregate length, as well as two compression stations with an aggregate a capacity of 32,500 horsepower. This fully bi-directional system starts at an interconnection point with the North Baja Pipeline's (an affiliate company of TransCanda) system at the Mexico–U.S. border and ends at the Company's interconnection point with TGN pipeline, in the south of the city of Tijuana. The system's bi-directional capability allows the Company to use natural gas supplies from either the U.S. domestic natural gas market or from its LNG Terminal. The three pipelines comprising this system include the Rosarito Mainline, the LNG Spur and the Yuma Lateral:

- *Rosarito Mainline.* This system was completed in 2002 to supply natural gas from the United States to several power plants and industrial customers in Baja California, and it is comprised of a 30-inch diameter pipeline with a length of approximately 225 km, it has a capacity of 534 MMcfd (5.6 MMThd).

- *LNG Spur.* This system was completed in 2008 and delivers regasified LNG from the Company's LNG terminal into the Rosarito Mainline for delivery to power plants and industrial customers in Mexico and the pipeline systems in the United States. This system is comprised of a 42-inch diameter pipeline with a length of approximately 72 km and a capacity of 2,600 MMcfd (27.0 MMThd).

- *Yuma Lateral.* This system was completed in 2010 to supply the power generation market in Arizona, and it is comprised of a 12-inch diameter pipeline with a length of approximately five km and a capacity of 190 MMcfd (2.0 MMThd).

The Rosarito Pipeline system includes a 30,000 horsepower Algodones compression station installed on the Rosarito Mainline in Algodones, Baja California, which increases the system's capacity but does not directly generate revenue. The Rosarito pipeline system includes a 2,500 horsepower La Jovita compression station, which is currently in operation. It is located at the LNG Spur interconnection point.

The Company has entered into 14 firm transportation services agreements with the Rosarito pipeline system's customers, for 3,777 MMcfd (34 MMThd) or 97% of the system's installed capacity (including compression). The following table contains a summary of the principal terms of the firm transportation services agreements with the Rosarito pipeline system's key customers:

Customer	Purpose	Execution Date	Term	Contracted Capacity(1)	Remaining Contract Length
IEnova Marketing (a subsidiary of the Company)(2)	Transportation of Natural Gas from an interconnection point between TGN pipeline and Rosarito Mainline to an interconnection point between Rosarito Mainline and North Baja Pipeline system.	February 15, 2002 (4)	20 years	190 MMcfd maximum daily quantity	4 years
IEnova Marketing (a subsidiary of the Company)(2)	Transportation of Natural Gas from an interconnection point between Rosarito Mainline and North Baja Pipeline system to an interconnection point with TGN pipeline.	February 15, 2002 (4)	20 years	210 MMcfd maximum daily quantity	4 years
Shell	Transportation of Natural Gas from the LNG Terminal to an interconnection point with Rosarito Mainline	June 19, 2008	20 years	1,164 MMcfd maximum daily quantity	10 years
Gazprom	Transportation of Natural Gas from the LNG Terminal to an interconnection point with Rosarito Mainline and from an interconnection point between TGN pipeline and Rosarito Mainline to an interconnection point to an interconnection point between Rosarito Mainline and North Baja Pipeline system.	April 14, 2009	20 years	142 MMcfd maximum daily quantity	10 years
Termoeléctrica de Mexicali (a subsidiary of the Company)(3)	Transportation of Natural Gas from an interconnection point between Rosarito Mainline and North Baja Pipeline system to an interconnection point with Termoeléctrica de Mexicali	February 26, 2002	20 years	100 MMcfd maximum daily quantity	4 years
Saavi(5)	Transportation of Natural Gas from an interconnection point between Rosarito Mainline and North Baja Pipeline system to an interconnection point near Las Palmas, Mexicali, Baja California.	February 28, 2002	26 years	135 MMcfd maximum daily quantity	9 years
IEnova Marketing (a subsidiary of the Company)(2)	Transportation of Natural Gas from the LNG Terminal to an interconnection point with Rosarito Mainline	May 1, 2008	20 years	1,307 MMcfd maximum daily quantity	9 years

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

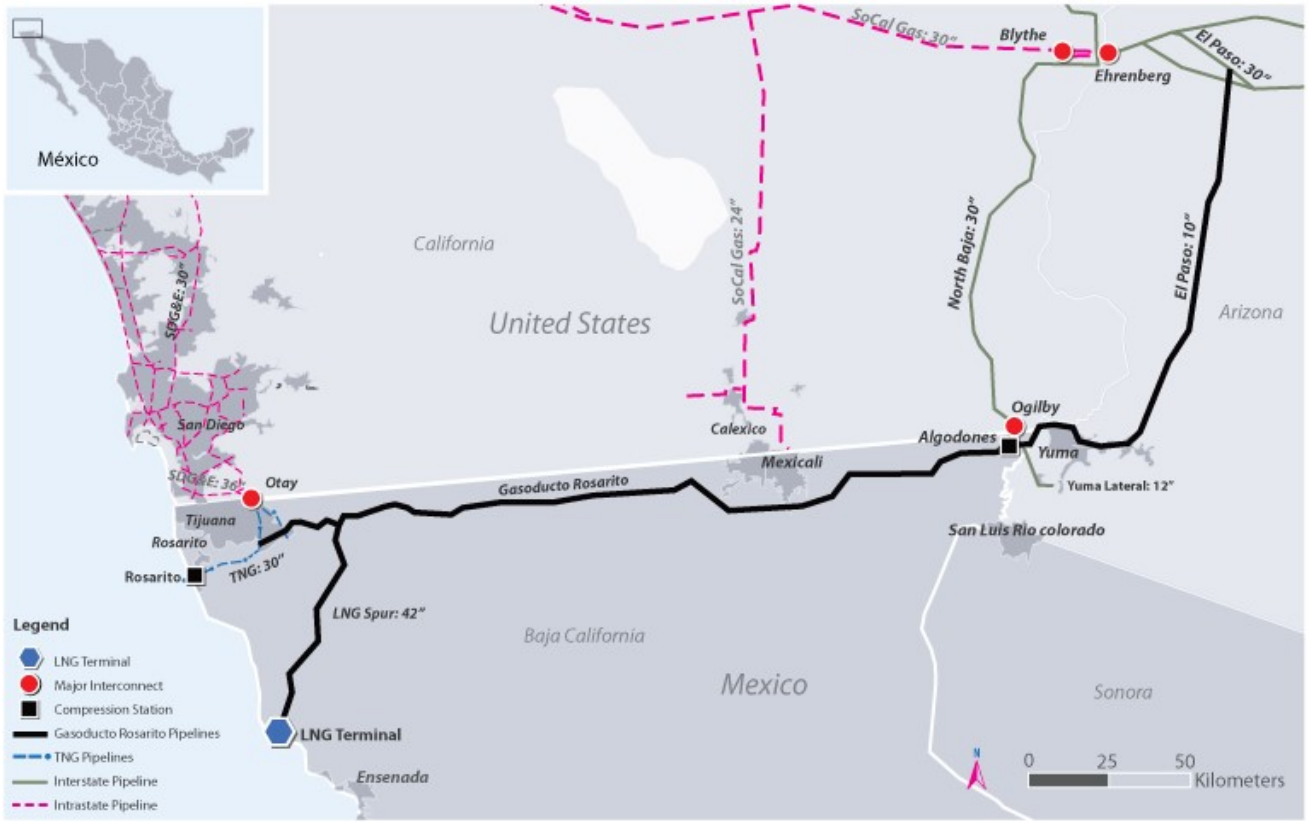
(2) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under its contracts with the Rosarito pipelines system in an aggregate amount of USD$125.8 million. IEnova Marketing currently utilizes its contracted capacity to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

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

(4) The last modification agreement to the initial contract is April 1, 2014. The contract expires in 2022.

(5) Before Intergen.

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



TGN Pipeline

The TGN pipeline transports natural gas to the Presidente Juárez power plant owned by the CFE to industrial customers in the areas of Tijuana and Rosarito, Baja California and to the Company's affiliate SDG&E in the San Diego, California area. This fully bi-directional system, which is comprised of approximately 45 km of 30-inch diameter pipeline and has a capacity of 940 MMcfd (9.8 MMThd), interconnects with the Rosarito pipelines system in the Tijuana area and extends north to interconnect with the Company's affiliate SDG&E's system at the Mexico–U.S. border in Otay Mesa and southwest to the CFE's 1,300 MW Presidente Juárez power plant in Rosarito, Baja California. This pipeline system includes an 8,000 horsepower Rosarito compression station, which increases the system's delivery pressure. The location and routes of the TGN pipeline is shown in the map above.

The customers of the TGN pipeline contract the full amount of the system's design capacity on a firm basis. The following table contains a summary of the principal terms of the firm transportation services agreements with the TGN pipeline's key customers:

Customer	Purpose	Execution Date	Term	Contracted Capacity(1)	Remaining Contract Length
Shell	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SDG&E's pipeline system in Otay Mesa, California.	June 19, 2008	20 years	400 MMcfd (maximum daily quantity)	10 years
IEnova Marketing (a subsidiary of the Company)(1)	Transportation of natural gas from an interconnection point with the Rosarito Mainline in Tijuana, Baja California to an interconnection point with SDG&E's pipeline system in Otay Mesa, California and an interconnection point with the Presidente Juárez power plant in Rosarito, Baja California.	May 1, 2008	20 years	540 MMcfd (maximum daily quantity)	10 years

(1) The Company's indirect controlling shareholder Sempra Energy has provided credit support in respect of IEnova Marketing's obligations under this contract in the amount of USD$45.6 million. IEnova Marketing currently utilizes its contracted capacity to transport natural gas it provides to the CFE's 1,300 MW Presidente Juárez power plant. In addition, under the contract with the CFE, IEnova Marketing is reimbursed for the portion of the contracted capacity related to transportation to the Presidente Juárez power plant.

Aguaprieta Pipeline

The Company's Aguaprieta pipeline transports natural gas for its main customer, Kinder Morgan, from the interconnection of Kinder Morgan's Willcox Lateral pipeline, located at the Mexico–U.S. border, to the Fuerza y Energía Naco–Nogales combined-cycle power plant located southeast of the city of Agua Prieta, Sonora, which provides electricity to the CFE. This system is comprised of approximately 13 km of 20-inch diameter pipeline and has a design capacity of 200 MMcfd (2.1 MMThd).

The firm transportation services contracts in force between the Company and the Aguaprieta Pipeline system represent 129.4 MMcfd (1.3 MMThd), equivalent to 65% of the system's installed capacity. Among these contracts is a firm transportation services contract with the CFE, signed in September 2013, for 67 MMcfd (0.7 MMthd), which is renewed every year after an initial period of two years. This contract supplies a combined cycle generation plant fired with gas from Agua Prieta II, which reached commercial operations in 2017. In addition, in October 2013 the Company signed two firm contracts with El Paso Marketing, one on June 2002 and the second on October 2013, with a duration of twenty five and six years respectively for 50 MMcfd and 2 MMcfd.

This system was built contemplating the possible construction by the CFE of two additional energy generating plants in the same territory (one of them being Agua Prieta II).

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



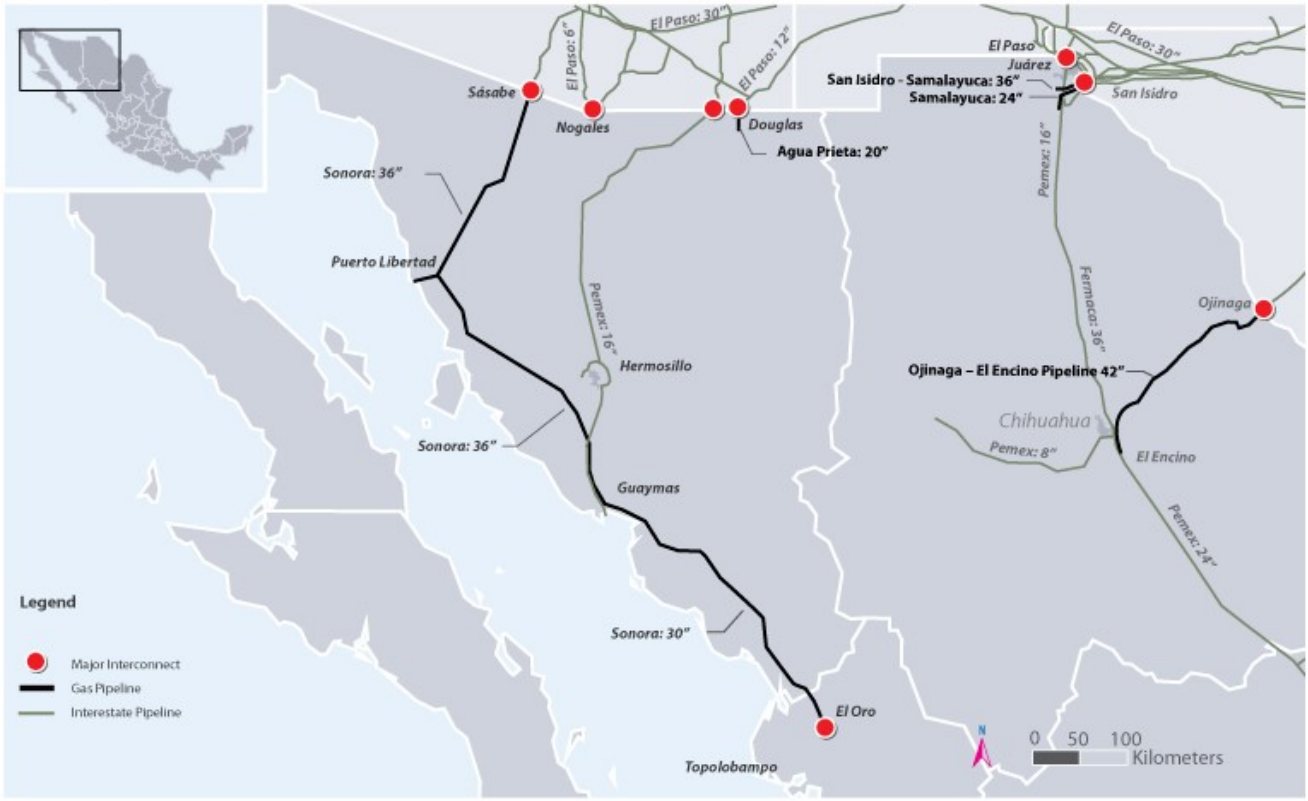
Naco Compression Station

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

Sonora Pipeline

In October and November 2012 the Company entered into two natural gas transportation service agreements with the CFE. Pursuant to these agreements, the Company built the Sonora pipeline in the states of Sonora and Sinaloa, which will be approximately 835 km in length. This system is comprised of an approximately 505 km, 36-inch pipeline segment with a capacity of 770 MMcfd (8.0 MMThd), and an approximately 330 km, 30-inch pipeline segment with a capacity of 510 MMcfd (5.3 MMThd). For further information regarding the Guaymas - El Oro segment of the Sonora pipeline, see "Risk Factors-Risks Relating to the Natural disasters, accidents, acts of terrorism or criminality could materially adversely affect the Company's business, financial condition, results of operations, cash flows, prospects and/or the market price of its securities." The CFE is the only customer of these pipelines under 25-year U.S. Dollar-denominated take-or-pay firm basis capacity agreements. In addition, the system has no material agreements with other customers on interruptible basis.

The following map shows the location of this system:



San Fernando pipeline

San Fernando pipeline consists of approximately 114 km of 36-inch diameter pipeline and two compression stations with an aggregate of 95,670 horsepower. Its transportation capacity (including compression) is 1,000 MMcfd (10.4 MMThd). The pipeline runs from the El Caracol compression station in Reynosa, Tamaulipas to the Los Indios compression station in San Fernando, Tamaulipas. This bi-directional pipeline increases the capacity and improves the reliability of CENAGAS natural gas system.

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

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



Samalayuca pipeline

Samalayuca Pipeline consists of approximately 37 km of 24-inch diameter pipeline with a capacity of 400 MMcfd (4.2 MMthd) and the Gloria a Dios compression station with a capacity of 14,300 horsepower. This gas pipeline came into operation in 1997 and its compression station 4 years later. This was the first private natural gas transportation system in Mexico. The pipeline runs from Ejido San Isidro, Chihuahua, to the electricity generation plants Samalayuca I and Samalayuca II of the CFE and to the Gloria a Dios compression station, which is interconnected to the 16-inch-diameter gas pipeline belonging to CENAGAS that goes from Ciudad Juárez to Chihuahua.

The firm transport service contracts signed with the users of the Samalayuca Pipeline represent a capacity of 200 MMcfd and includes 60 MMcfd (0.6 MMthd) contracted by CFE for the firm compression service at Gloria a Dios compression station . This contract was executed in November 2011 and has an initial term of 20 years, but may be extended for an additional term of five years at the option of the CFE.

The following table sets forth certain characteristics of the Samalayuca pipeline's firm transportation services agreements:

Customer	Purpose	Execution Date	Term	Contracted Capacity	Remaining Contract Length
CFE	Transportation of natural gas from an interconnection point located in the Ejido San Isidro, at the border crossing of the state of Chihuahua with the United States to various interconnection points with the CFE's Samalayuca I, Samalayuca II and Chihuahua III	December 31, 2013	Evergreen	100 MMcfd maximum daily quantity	Evergreen
Pemex TRI	Transportation of natural gas from an interconnection point located in the Ejido San Isidro, at the border crossing of the state of Chihuahua with the United States to the interconnection point with the CENAGAS	December 11, 2009	Evergreen	40 MMcfd (maximum daily quantity)	Evergreen
CFE	Transportation of natural gas from an interconnection point located in the Ejido San Isidro, at the border crossing of the state of Chihuahua with the United States to Gloria a Dios Compression Station.	February 15, 2001	20 years	60 MMcfd maximum daily quantity	2 years

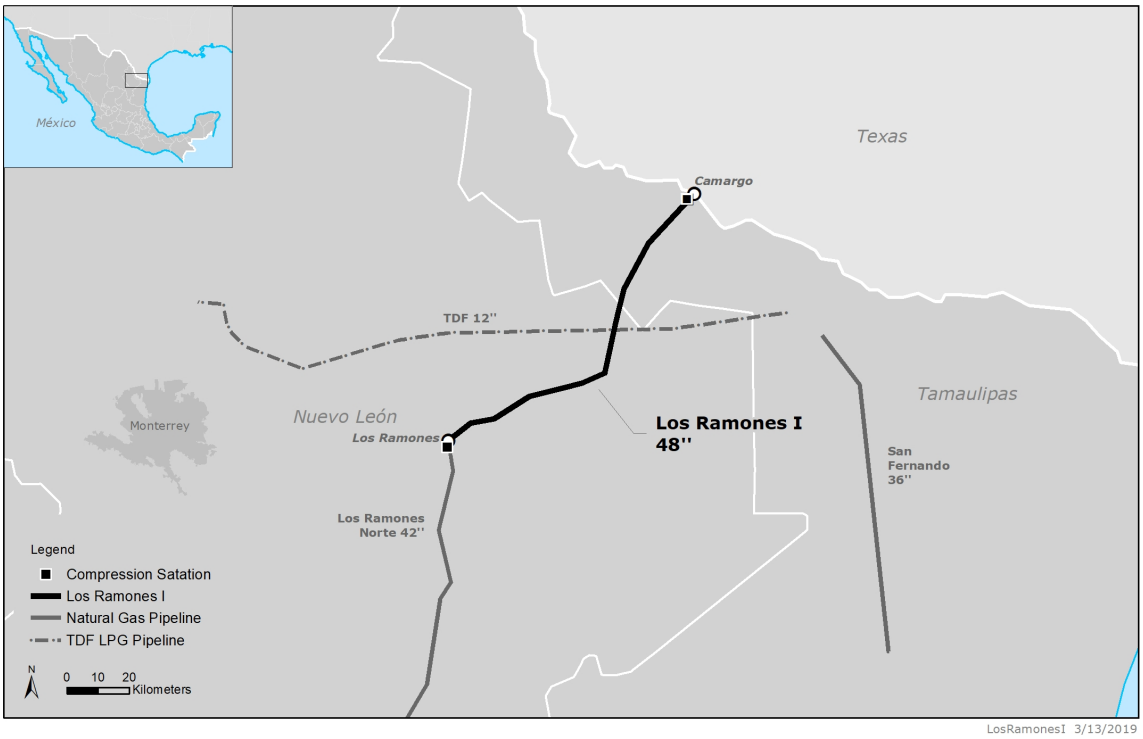
The following map shows the route of the Samalayuca pipeline:



Los Ramones I pipeline

This pipeline system, which began commercial operations in December 2014, is comprised of approximately 116 km of 48-inch diameter pipeline with a design transportation capacity of 2,100 MMcfd (21.8 MMThd). It transports natural gas from the northern portion of the state of Tamaulipas bordering the United States to the interconnection points with the Los Ramones Norte Pipeline and the national gas pipeline system in Los Ramones in the State of Nuevo León. This system also includes two compression stations that began commercial operations in December 2015 (the Frontera station, located near Camargo City, Tamaulipas, with approximately 82,000 horsepower and the Ramones station, located near Los Ramones, Nuevo León, with approximately 41,000 horsepower). CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline under a 25-year firm transportation services agreement.

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



Ojinaga–El Encino Pipeline

In December 2014 the Company entered into a firm transportation services agreement with the CFE, for the construction and operation of a 42-inch pipeline with an approximate length of 220 km and a design capacity of 1,356 MMcfd (14.1 MMThd) to transport natural gas from Ojinaga to El Encino in the State of Chihuahua. The CFE is the sole customer of this system under a 25-year firm transportation services agreement. The system commenced operations in June 2017.

The following map shows the location of the Ojinaga–El Encino pipeline:

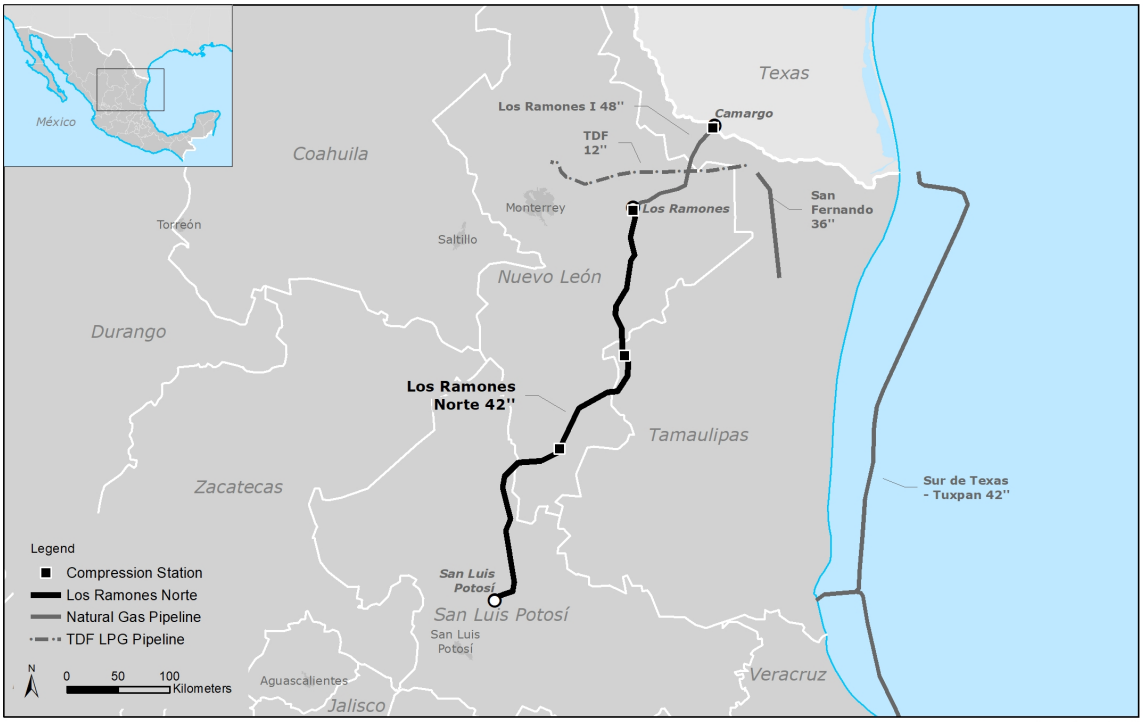


Los Ramones Norte pipeline

In March 2014, DEN entered into a shareholders' agreement to set up a joint venture, which is referred to as the TAG Norte joint venture, for the construction and operation of the Los Ramones Norte pipeline project. In the same month, the TAG Norte joint venture executed a 25-year natural gas firm transportation services agreement with Pemex TRI to construct and operate an approximately 452 km, 42-inch diameter pipeline with a design transportation capacity of 1,420 MMcfd (14.8 MMThd) and two compression stations. This pipeline connects with the Los Ramones I pipeline and the Los Ramones Sur pipeline in San Luis Potosí. CENAGAS, as assignee of Pemex TRI, is the sole customer of this pipeline.

Through DEN, the Company has a 50% interest in the TAG Norte joint venture, BlackRock has the remaining 50%, each joint venture partner has a right of first refusal and a tag-along right in the event another partner desires to transfer its interest to a third party.

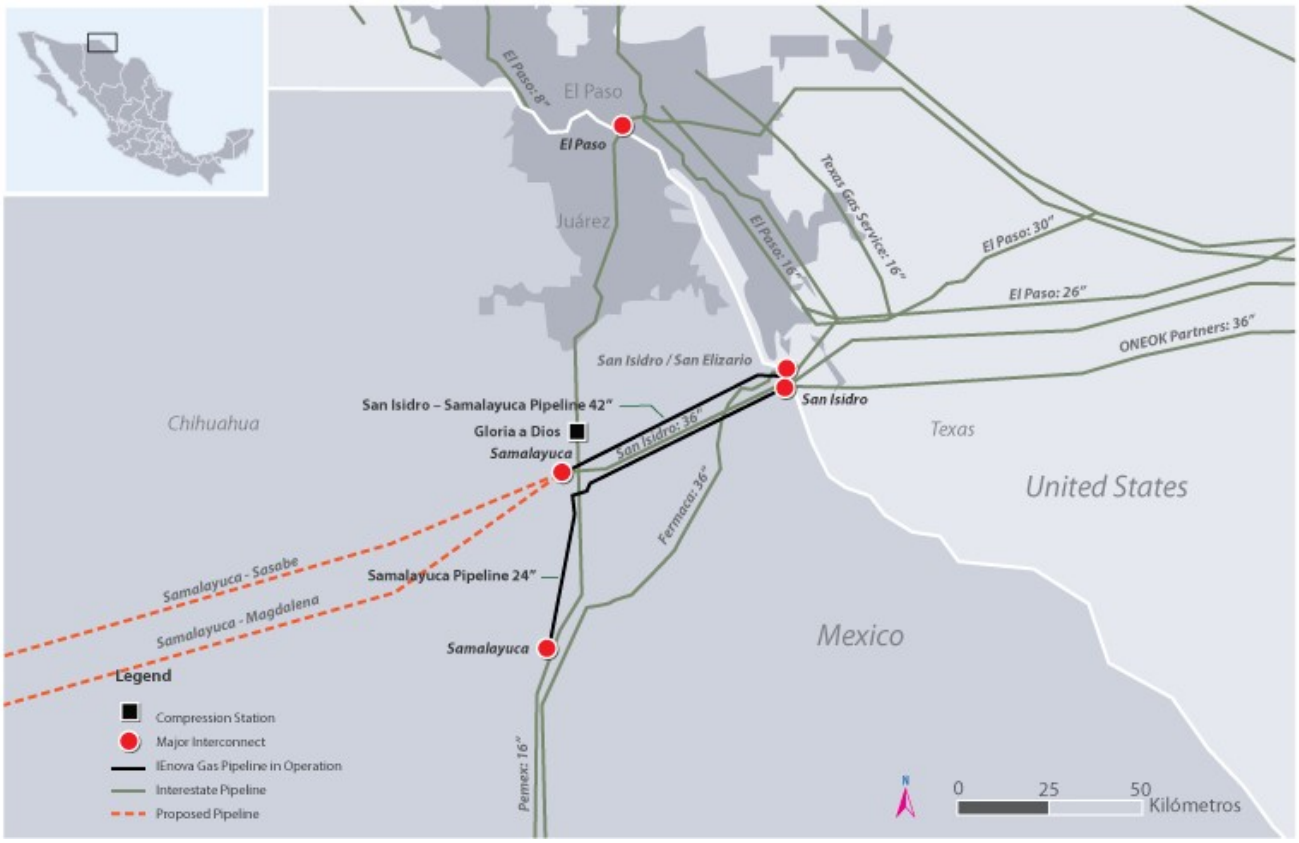
The following map shows the location of Los Ramones Norte pipeline:



San Isidro–Samalayuca Pipeline

In July 2015, the Company was awarded with a 25-year firm transportation services agreement with the CFE for the construction and operation of a pipeline with an approximate length of 23 km, an installed capacity of 1,135 MMcfd (11.8 MMThd), a 46,000 horsepower compression station and a distribution header with a capacity of 3,000 MMcfd (31.2 MMThd), which will serve as an interconnection point for several other pipeline systems. The CFE will be the sole customer of this system under the firm transportation services agreement. The system, located in Ciudad Juárez, Chihuahua, started operations in March 2017.

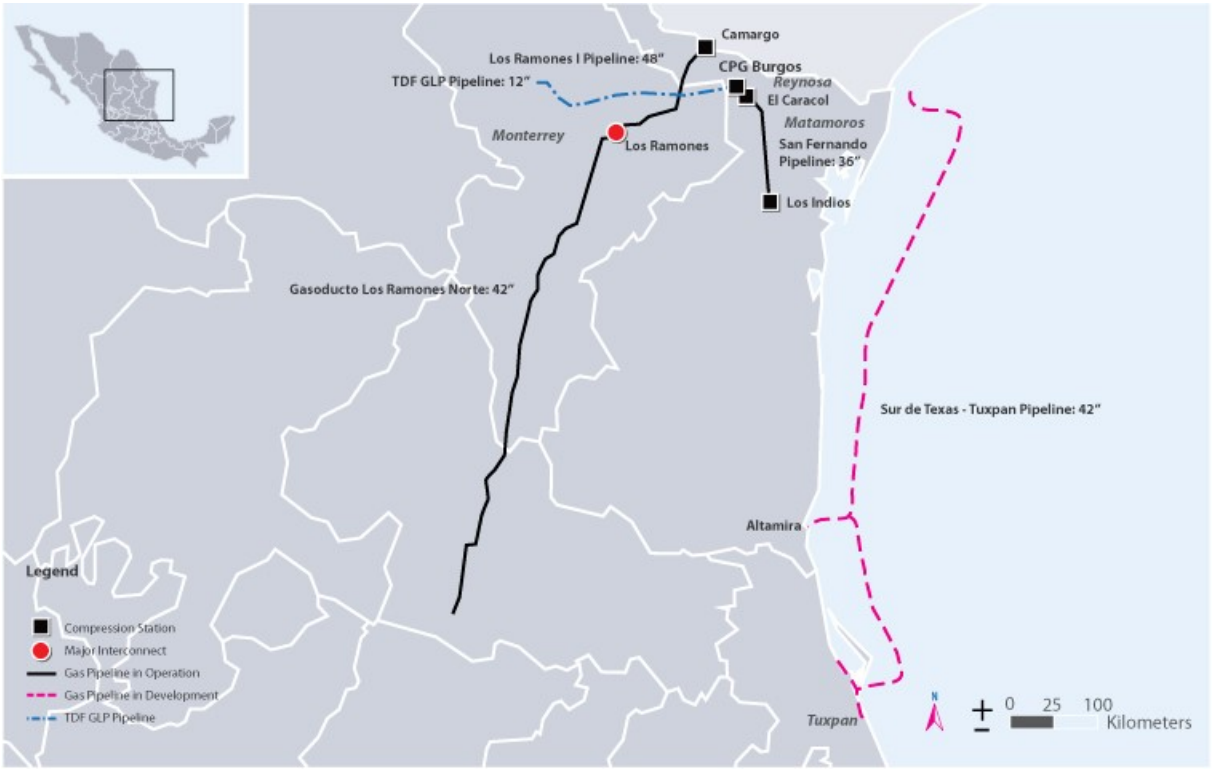
The following map shows the route of the San Isidro–Samalayuca pipeline:



South of Texas – Tuxpan pipeline

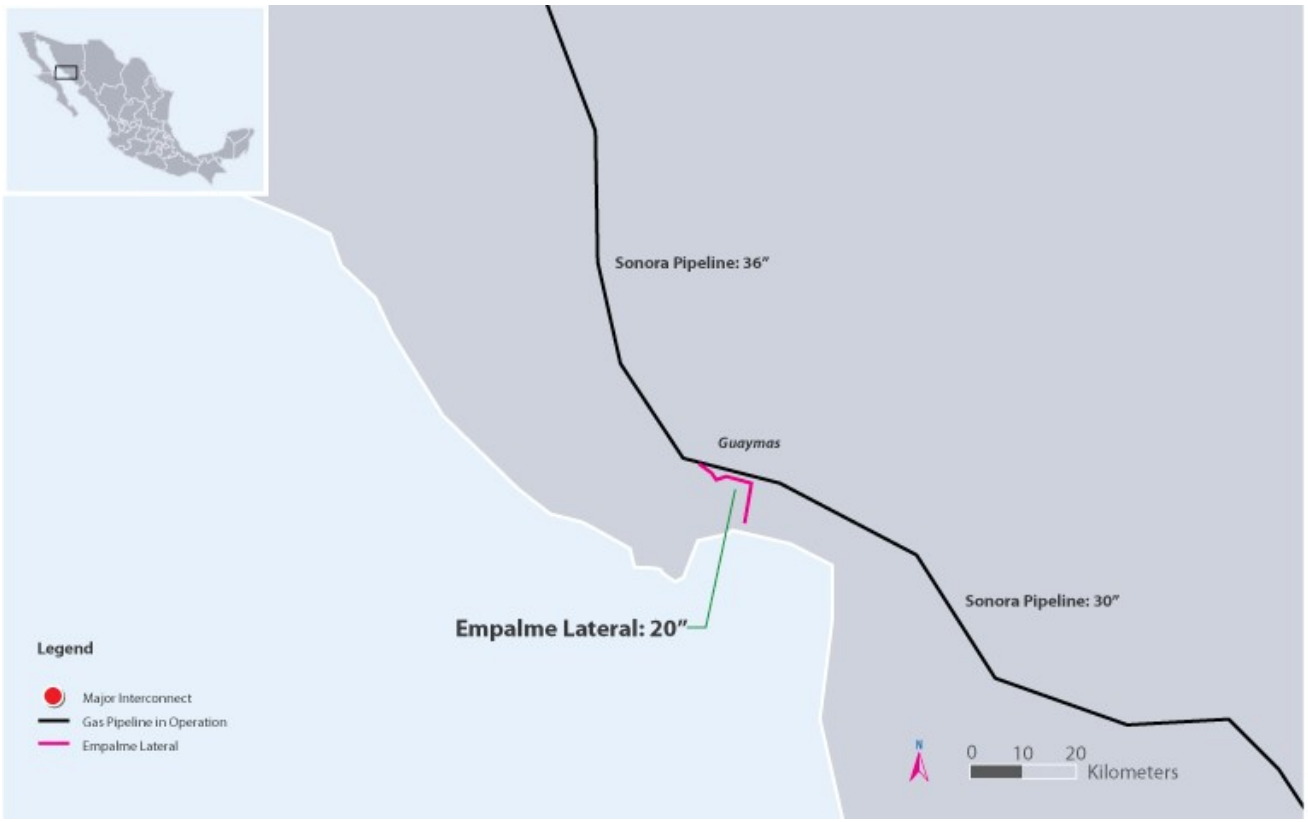
In June 2016, the Company, through IMG entered into a 25-year agreement with the CFE to provide natural gas transportation services. Pursuant to this agreement, IMG is responsible for the development, engineering, procurement, construction, operation and maintenance of a 42-inch natural gas pipeline with capacity of 2,600 MMcfd (27 MMThd), that runs approximately 800 kilometers. The Company and TransCanada have agreed to provide credit support to IMG's suppliers and other counterparties, including the CFE in connection with the development of this pipeline. The Company estimates the capital expenditures for the South of Texas—Tuxpan pipeline to be approximately USD$2,480 million, of which the Company will assume USD$992 million (in proportion to its ownership). The Company expects the South of Texas—Tuxpan pipeline to begin commercial operations during the second quarter of 2019.

The following map shows the route of the South of Texas—Tuxpan pipeline:



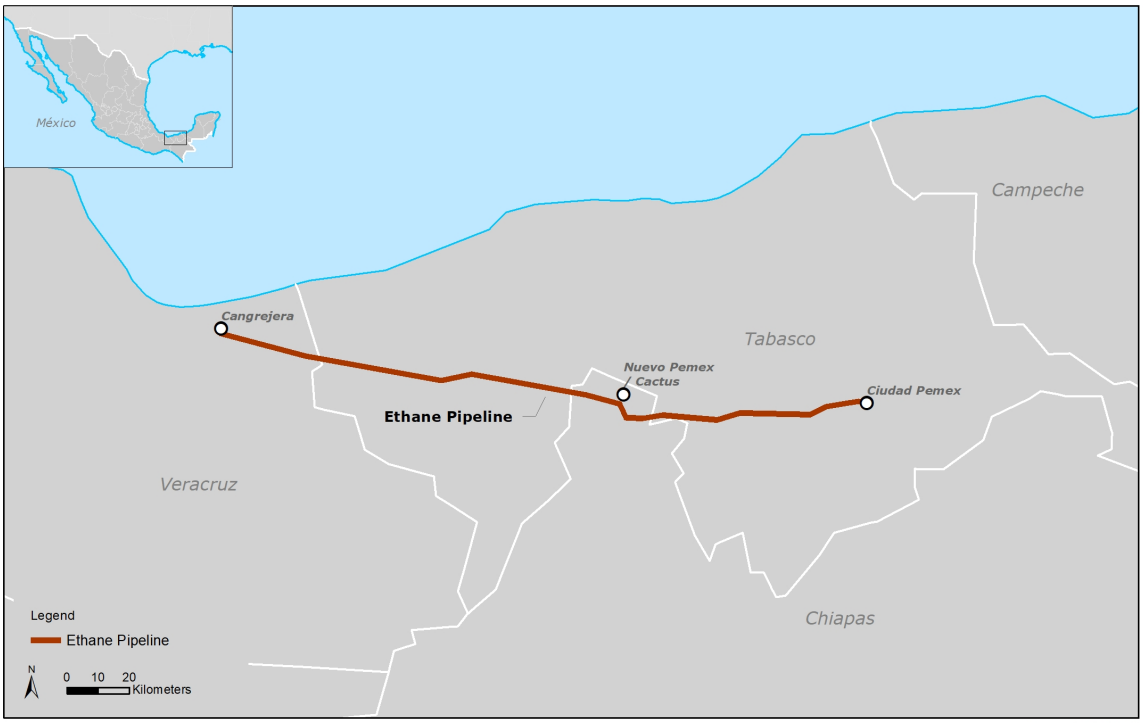
Empalme Lateral Pipeline

In May 2016, the Company was awarded a natural gas pipeline from the CFE for the Empalme Lateral in the State of Sonora. This 20-inch natural gas pipeline with a capacity of 226 MMcfd (2.4 MMThd) runs approximately 20 km between Empalme and Guaymas, where it interconnects with the Sonora pipeline project. It was developed and built by the Company pursuant to a 21-year firm transportation services agreement entered into between the Company and the CFE. The Company is responsible for the operation and maintenance of the pipeline. Empalme Lateral pipeline started commercial operations on June 2017. The following map shows the route of the Empalme Lateral pipeline:



Ethane Pipeline

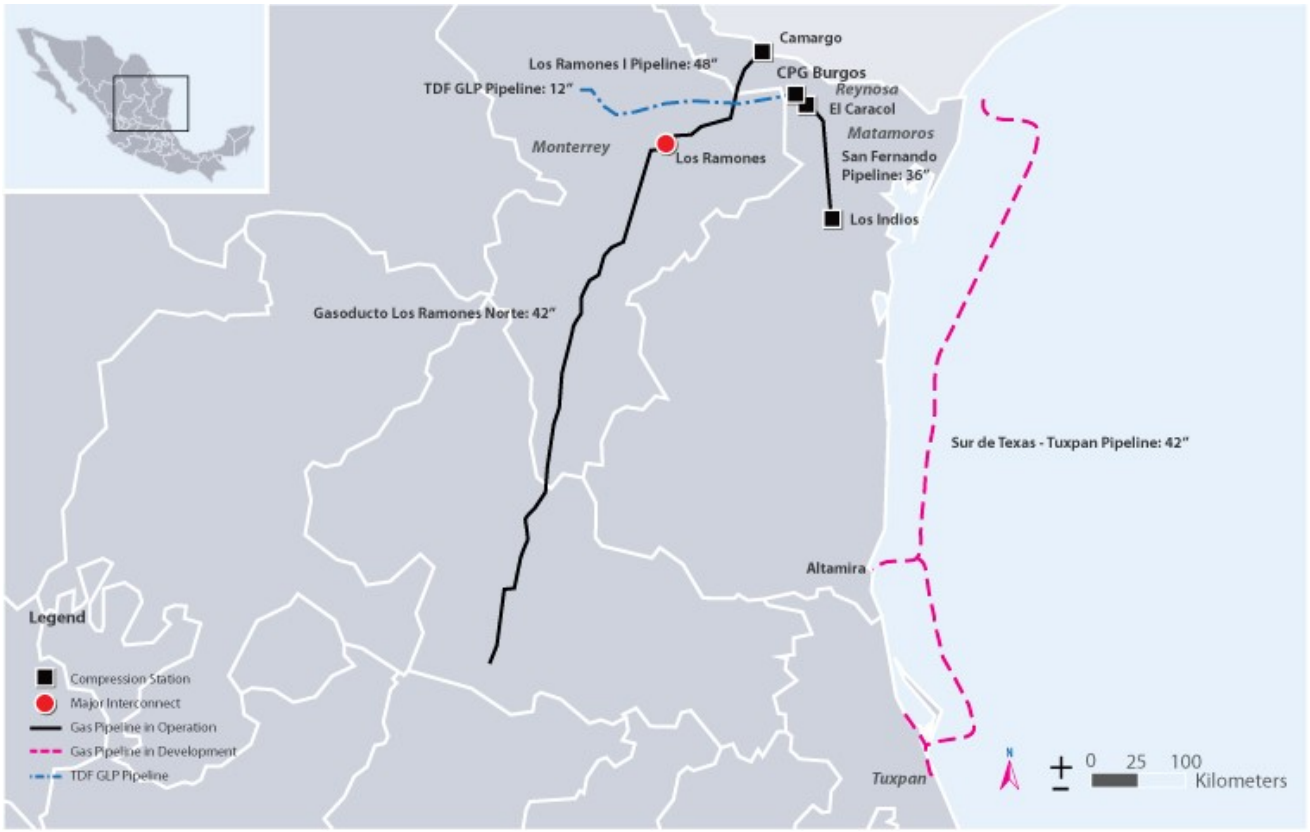
The Ethane pipeline, which supplies ethane from the Pemex processing plants located in the states of Tabasco, Chiapas and Veracruz to an ethylene and polyethylene plant located in the state of Veracruz, consists of an approximately 224 km pipeline comprised of three segments. The first segment has a design transportation capacity of up to approximately 52 MMcfd (0.6 MMThd), the second segment of up to approximately 152 MMcfd (1.8 MMThd) both as ethane gas, and the third segment of up to approximately 106,000 bpd (3.1 MMThd) as ethane liquid. The first segment of this pipeline began commercial operation in January 2015, the second segment began commercial operation in July 2015 and the third segment began commercial operation in December 2015. Pemex TRI is the sole customer of this pipeline under a 21-year U.S. Dollar-denominated take-or-pay capacity agreement, which is indexed to inflation. The following map shows the route of Ethane Pipeline:



TDF LPG Pipeline

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

The following map shows the route of the TDF Pipeline:



Guadalajara LPG Terminal

The LPG storage facility near Guadalajara, Jalisco consists of four storage tanks, each with a capacity of 20,000 bl (1.1 MMTh), ten loading bays and an interconnection to Pemex TRI's separately-owned LPG pipeline system. The facility was completed in December 2013 and replaced an LPG storage facility owned by Pemex TRI that was located within Guadalajara. The facility is operated by Pemex TRI and serves the Jalisco market. The Company has entered into an LPG Storage Services Agreement with Pemex TRI, pursuant to which the Pemex TRI contracts the full capacity of the terminal. Under the terms of this agreement, Pemex TRI pays a fixed monthly fee, regardless of the facility's use and a variable fee based upon its actual monthly use of the terminal services. This agreement has a 15-year term and expires in 2028. The following map shows the location of the Guadalajara LPG Terminal:



LNG Business

Overview

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

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

LNG Terminal

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

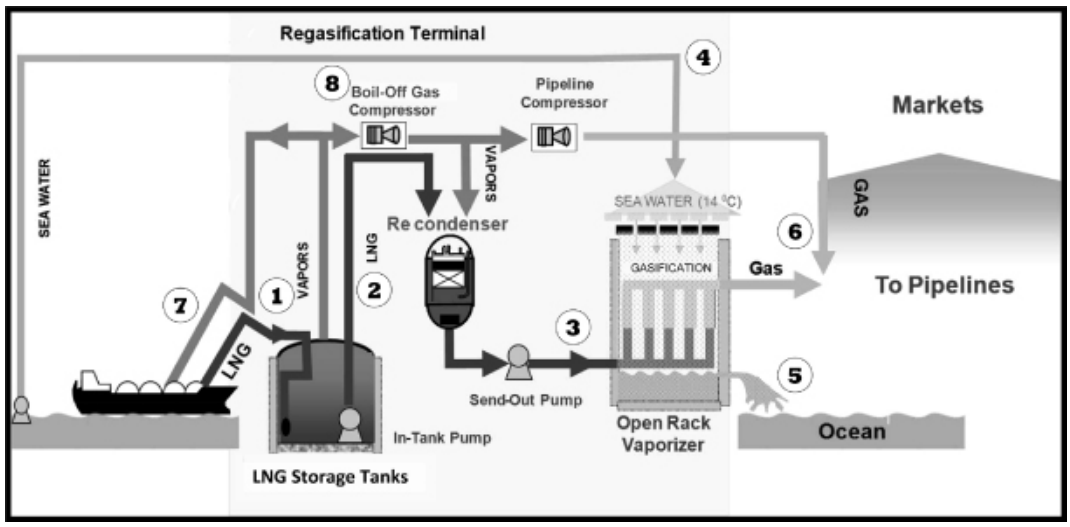
The Company's LNG terminal consists of:

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

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

Operation of The Company's LNG Terminal.

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



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

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

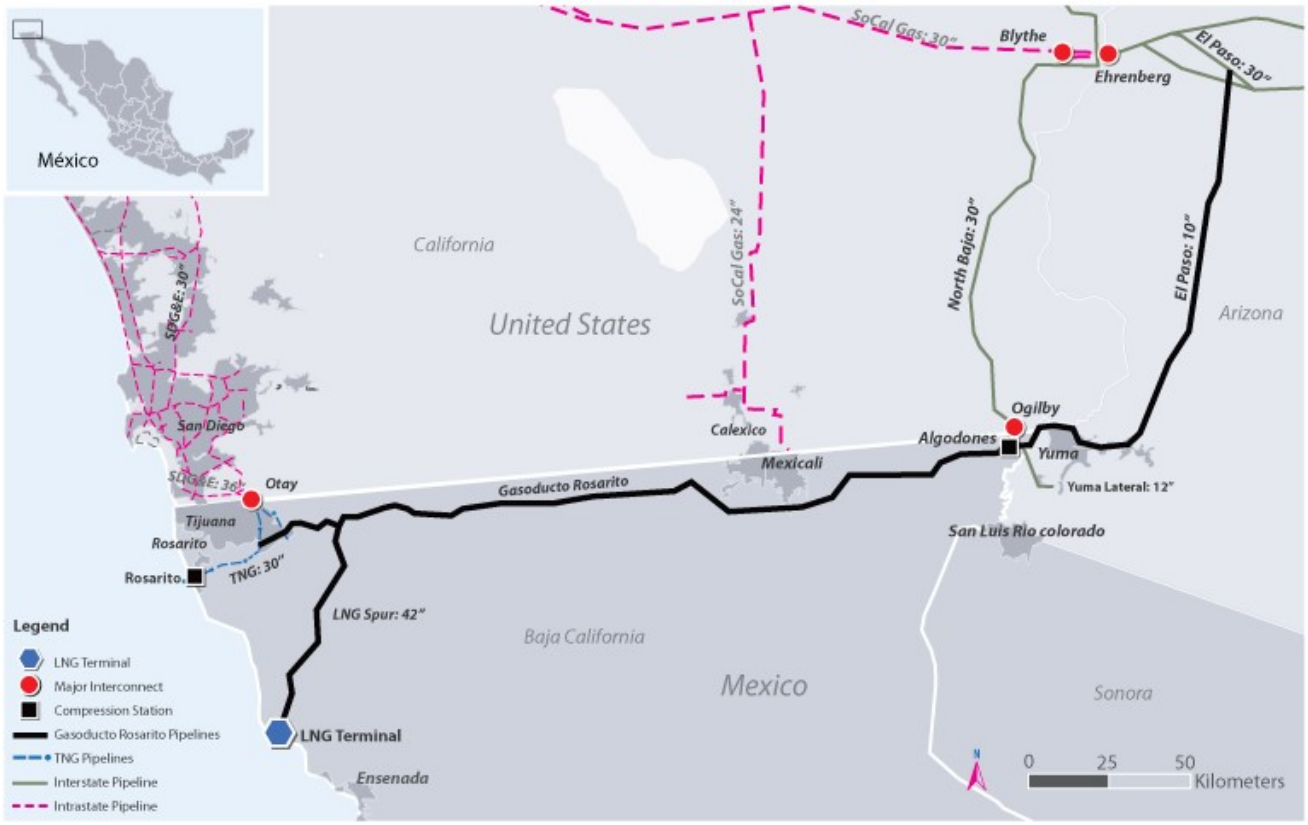
Internal temperature of the Company's LNG storage tanks.

In order for the Company's LNG terminal to be operational, and in order to prevent equipment damage that could be caused by the thermal expansion of certain components during warming, the internal temperature of the Company's LNG terminal storage tanks must be maintained at all times at a temperature no higher than approximately -160° Celsius. To keep the storage tanks at the required temperature, the Company must constantly maintain a minimum volume of LNG in the terminal. Because of current natural gas market conditions, the delivery of LNG cargoes to the LNG terminal by the capacity holders has been limited. Only one of the capacity holders, the Company's subsidiary IEnova Marketing, has delivered LNG cargoes to the terminal, which it purchases from one of the Company's U.S. affiliates, Sempra Natural Gas, pursuant to a long-term LNG purchase and sale agreement. Sempra Natural Gas has agreed to make a limited number of LNG cargoes available to IEnova Marketing for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. IEnova Marketing has agreed to use

reasonable efforts to deliver minimum quantities of LNG to the Company's LNG terminal. The Company's LNG terminal's customers are not otherwise obligated under the terms of their firm storage services agreements to supply minimum quantities of LNG. If the Company is unable to obtain sufficient volumes of LNG from the capacity holders to maintain the minimum required internal temperature of the Company's LNG terminal, the Company will need to secure such volumes in the open market. See "Risk Factors – Risks Relating to The Company's business and Industry – The Company may be exposed to high costs to acquire LNG in order to maintain the operations of the Company's LNG terminal."

Location

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



Refined products storage

The refined products storage business develops systems for the receipt and storage of petroleum products and other liquids, mainly gasoline, diesel and jet fuel in the states of Baja California, Colima, Puebla, Sinaloa, Veracruz and Valle de Mexico. Currently, the Company has four marine and two in-land terminals in process of development or construction, with a storage capacity of 6.9 million barrels, with the possibility of expansion.

All the contracts the Company currently has, were executed with large customers in the industry of refined products: BP, Chevron, Marathon, Trafigura and Valero. These storage contracts are long-term, U.S. Dollar-denominated on firm basis and conventional, independently that each terminal will have a regulated tariff determined by CRE.

In these contacts, financial guarantees from the customers were included, additionally, according to the regulation, the customers will be subject to the General Storage Service Terms and Conditions in each terminal.

The following table shows a summary of the projects included in the refined products storage of the Company as of December 31, 2018, including those in which the Company participates in a Joint Venture:

Storage terminal	Ownership %	Storage capacity in bl	Capacity % contract long term	Estimated start date of operations
Veracruz	100%	2,100,000	100%	Fourth quarter 2019 - First quarter 2020
Puebla	100%	650,000	100%	Fourth quarter 2019 - First quarter 2020
Valle de México	100%	650,000	100%	Fourth quarter 2019 - First quarter 2020
Baja Refinados	100%	1,000,000	100%	Fourth quarter 2020
Topolobampo	100%	1,000,000	100%	Fourth quarter 2020
Manzanillo	51%	1,480,000	50%	Fourth quarter 2020

Veracruz Terminal

The Veracruz Terminal is currently under construction. Commercial operation is expected to begin between the fourth quarter of 2019 and the first quarter of 2020. The terminal is located in the New Port of Veracruz. In 2017, the Company won the competition for a marine terminal for the receipt, storage and delivery of hydrocarbons in the New Port of Veracruz. The customer of this terminal is Valero, who contracted all of the terminal capacity.

The terminal has a nominal storage capacity of 2.1 million barrels, in twelve storage tanks, for the storage of regular gasoline, premium gasoline, diesel, jet fuel, filtered jet fuel and MTBE (Methyl *tert*-butyl ether) as an oxygenate. The terminal will be able to deliver by tanker trucks and train.

Puebla Terminal

The Puebla terminal is one of the destinations of the products coming from the Veracruz terminal and will have a storage capacity of 650,000 barrels in nine tanks. The terminal will handle gasoline, premium gasoline, diesel and filtered jet fuel. The terminal will receive product by train and deliver product by tanker trucks.

The capacity is fully contracted by Valero, who intends to supply areas near Puebla with product from this terminal.

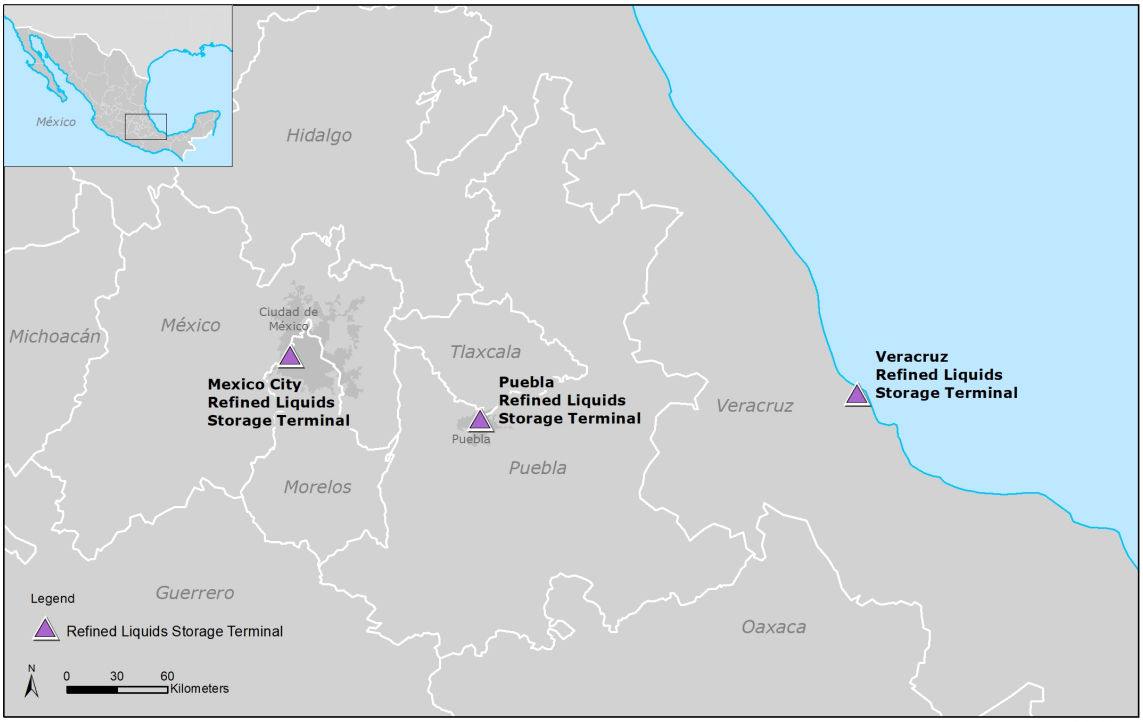
Valle de Mexico Terminal

The Valle de Mexico terminal is the second of two destinations for the products coming from the Veracruz terminal. It will have a storage capacity of 650,000 barrels in nine tanks. The terminal will handle gasoline, premium gasoline, diesel and filtered jet fuel. The terminal will receive product by train and deliver product by tanker trucks.

The capacity is fully contracted by Valero, who intends to supply the metropolitan areas of the Valle de Mexico.

The start of commercial operations for the Puebla and Valle de Mexico terminals is expected between the fourth quarter of 2019 and the first quarter of 2020. The investment for the Veracruz, Puebla and Valle de Mexico terminals is approximately USD$440 million.

The following map shows the locations of the Veracruz, Puebla and Valle de Mexico terminals:

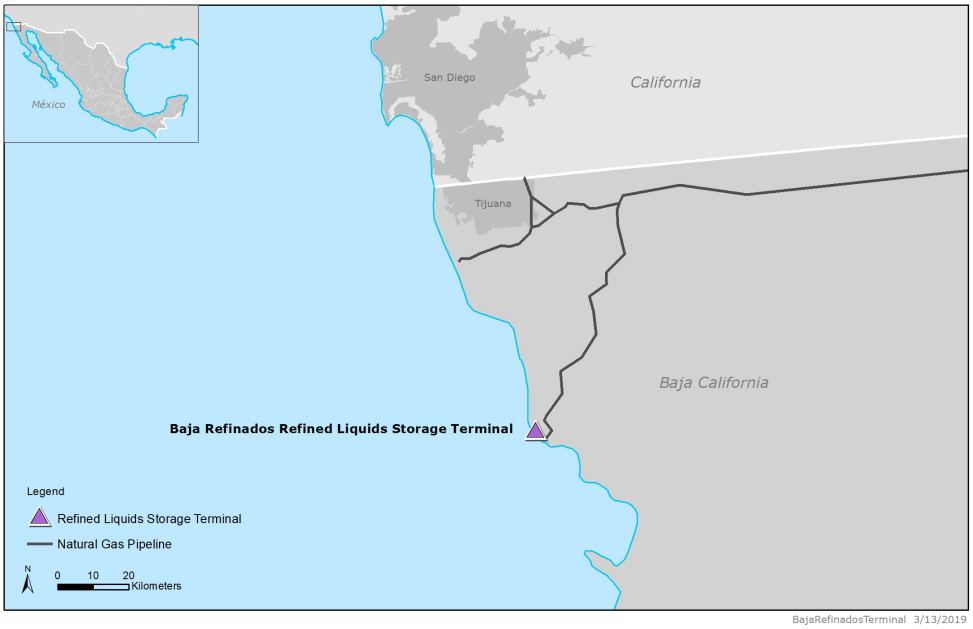


Baja Refinados Terminal

The Baja Refinados terminal is located in Ensenada, Baja California, on highway 1D at km 82, 26 km north of Ensenada within La Jovita Energy Center, near the LNG Energía Costa Azul. This terminal is under construction, and it will receive refined products through a marine buoy (Single Mooring Point, SPM) for the unloading of petroleum products. The installation of ten storage tanks is planned, with delivery by truck. The project has direct access to the Pacific Ocean, where the buoy will be located 1.5 km from the coast to receive the various products. The capacity of the terminal is approximately 1 million barrels, with an expansion capacity of 330,000 additional barrels.

This terminal has two storage services customers: a subsidiary of Chevron who contracted 50% of the capacity and a subsidiary of BP who contracted the other 50%. Both firm storage capacity contracts are long-term and dollar-denominated. The destination of the products will be Tijuana, Rosarito, Ensenada, Tecate and Mexicali. Commercial operation is estimated for the fourth quarter of 2020 with an investment of approximately USD$130 million.

The following map show the location of Baja Refinados terminal:



Topolobampo Terminal

Topolobampo terminal will receive refined products via tanker. It will have a dock for unloading products and dock-side facilities for storage in a tank farm and delivery by truck. The products will be distributed by truck to the cities north of Sinaloa and/or south of Sonora. The project is located in the municipality of Ahome, Sinaloa, within the API Topolobampo, 24 km west of Mochis Sinaloa. It will have a storage capacity of 1 million barrels, with the possibility of expansion.

This terminal has two petroleum product storage service customers for approximately 50% of the capacity each, a subsidiary of Chevron and a subsidiary of Marathon. The contracts are long-term, dollar-denominated, and firm. Commercial operation is expected in the fourth quarter of 2020 with an investment of approximately USD$150 million.

The following map shows the location of Topolobampo terminal:

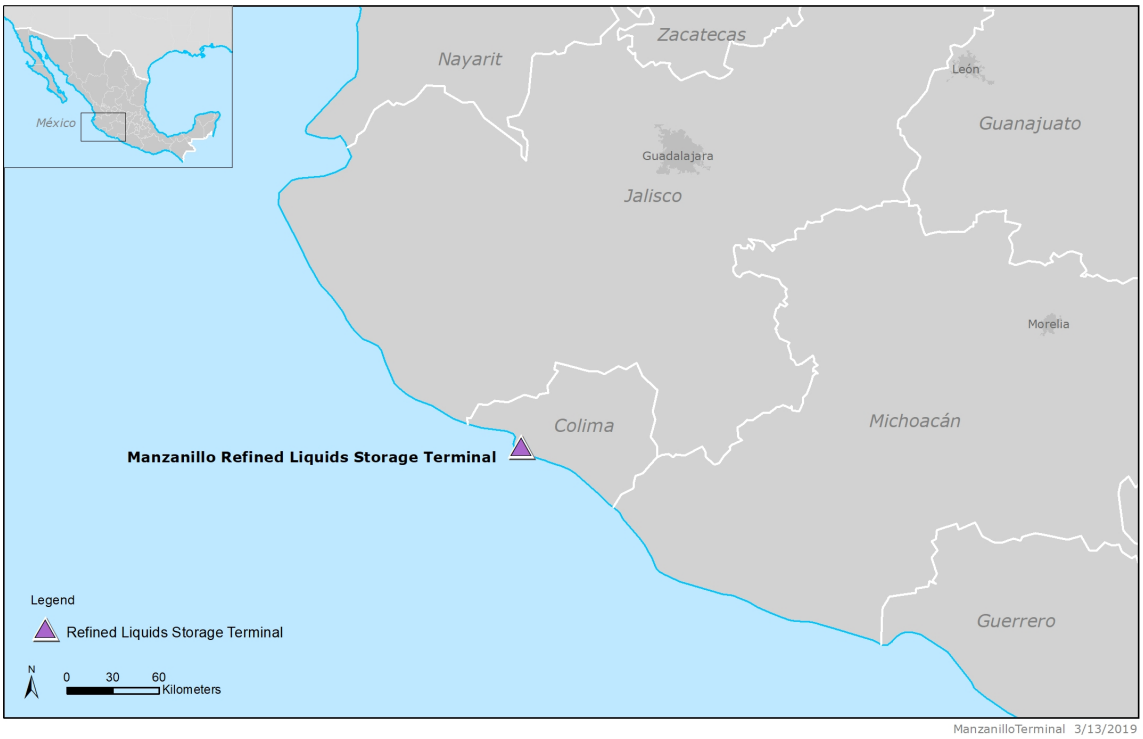


Manzanillo Terminal

In September 2018, IEnova acquired from Trafigura the 51% of the company that holds certain permits and lands where, subject to obtaining the remaining permits and other conditions, a terminal will be built in Manzanillo, Colima. It is worth mentioning that Trafigura's subsidiaries maintain 49% of the ownership interest in the project. Both IEnova and Trafigura signed an association contract to develop, build and operate the terminal. IEnova, will have control of the total implementation of the project, including the completion of the stage of obtaining permits, contracting with additional clients, detailed engineering, procurement, construction, financing, operation and maintenance of the terminal. The purpose is that the Company's customers can supply fuel to the consumption centers near Manzanillo, Colima and Guadalajara, Jalisco, which is the second largest consumer center in the country. In its initial stage, the terminal is expected to have a storage capacity of 1.48 million barrels, with the opportunity for expansion. The products will be received through a maritime buoy and delivery from the terminal via tanker trucks and rail.

The estimated investment of the project is USD $ 200 million, and it is expected, subject to the times of obtaining permits, to begin operations in the fourth quarter of 2020.

The following map shows the location of Manzanillo Terminal:



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

In November 2017, the Company completed the acquisition of the remaining 50% of the capital stock of DEN, which was owned by Pemex TRI. With this acquisition, IEnova holds 50% of TAG Pipelines Norte company.

Corporate structure of TAG Norte, the joint venture with BlackRock

In March 2015 DEN, Pemex TRI and TETL (currently owned by BlackRock) signed an agreement (the "TAG Pipelines Norte Contract") for their participation in TAG Pipelines Norte and the Los Ramones Norte Pipeline. During the second quarter of 2018, Pemex TRI sold its participation to BlackRock, as a result, the Company and BlackRock hold 50% of the capital stock each. Following is a description of the most important terms of the TAG Norte Contract:

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

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

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

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

Corporate structure of IMG, the joint venture with TransCanada

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

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

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

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

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

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

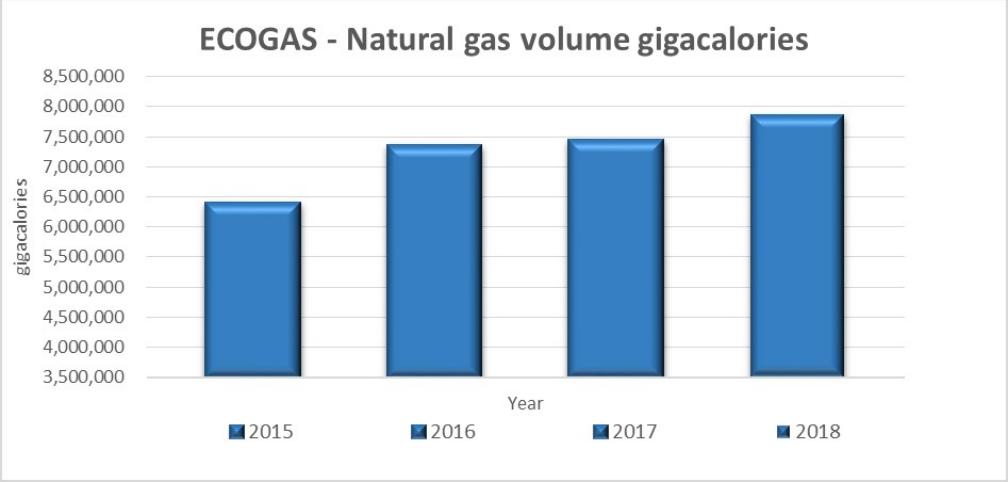
f. Supervisory and Maintenance Services. The parties have agreed that an affiliate of TransCanada will assume the supervisory and maintenance obligations of the project.

Natural Gas Distribution Business

Overview

The Company's subsidiary ECOGAS was awarded the first distribution permit given to a private company to build and operate a natural gas distribution system in Mexico under the 1995 natural gas regulation. Through its approximately 3,950 km of pipelines, as of December 31, 2018 the ECOGAS distribution system served in excess of 122,000 residential, commercial and industrial customers in northern Mexico, with operations in the distribution zones of Mexicali, Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna–Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

In addition to receiving the first distribution permit under the 1995 natural gas regulation, the Company became the first private distribution company to meet its build-out obligations to the Mexican government in terms of amount of investment and number of customers. Since the ECOGAS distribution system became operational, the Company has endeavored to market natural gas as a better alternative to LPG for industrial, commercial and residential consumption in the Company's markets. The following chart illustrates the growth in volume of natural gas distribute by the distribution business over the last four years.

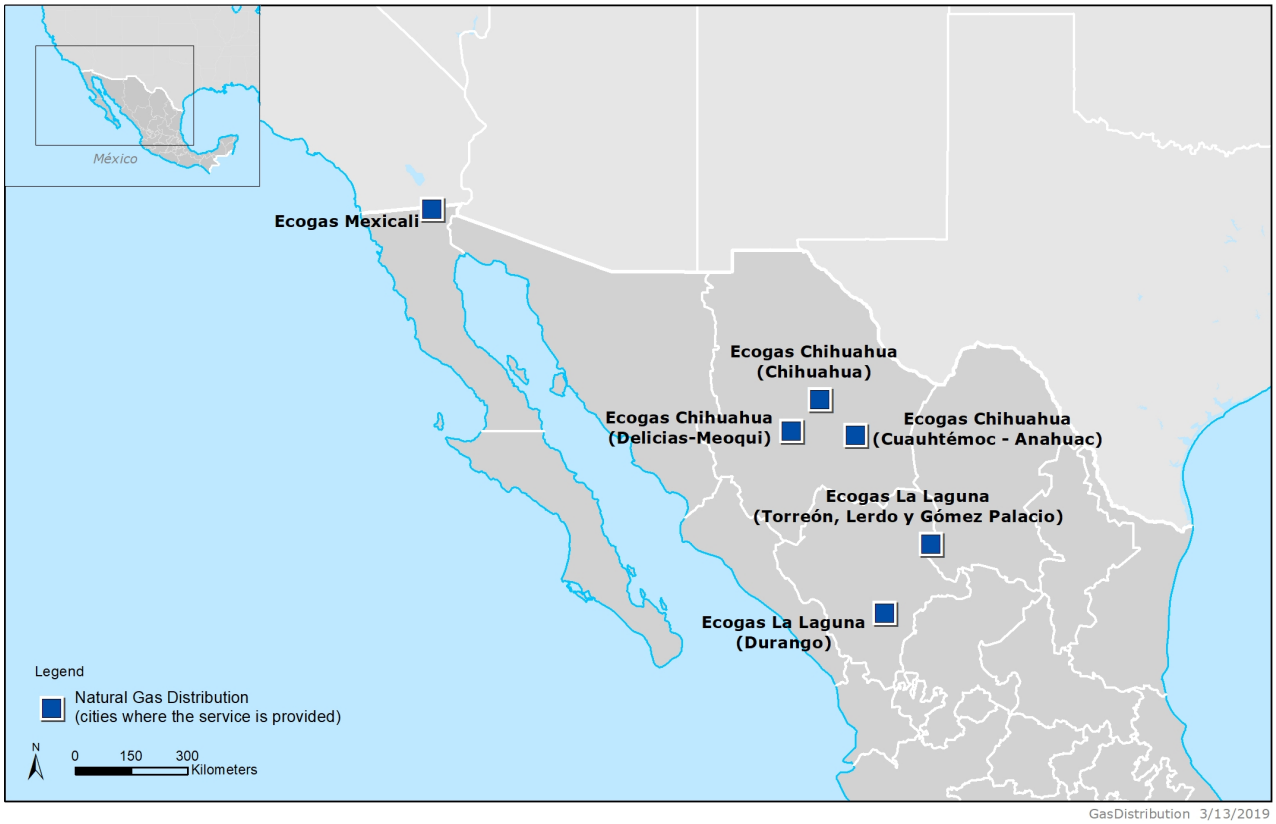


The natural gas distribution business includes the following key activities:

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

The Company's revenues are derived from service and distribution fees charged to its customers through monthly invoices. The purchase price the Company pays for natural gas is based on international price indexes and is passed through to its customers. However, the Company enters into hedging transactions with respect to these prices to reduce potential volatility in the price for natural gas that its customers ultimately pay. The service and distribution fees charged by the ECOGAS system are regulated by the CRE, which performs a review of rates every five years and monitors prices charged to end-users. The latest review by the CRE concluded o 2016 with the rate cases approval for Mexicali, La Laguna - Durango and Chihuahua. The current structure of natural gas prices minimizes the market risk to which the Company is exposed, as the rates are adjusted regularly based on inflation or fluctuations in foreign exchange rates. The adjustments for inflation include cost components incurred both in Mexico and the United States, so that United States costs can be included in the final rates.

The following map shows the location of each of the distribution areas serviced by ECOGAS distribution: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Meoqui, Cuauhtémoc and Anáhuac) and La Laguna – Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).



The following table contains a summary of the principal characteristics of the ECOGAS service areas as of December 31, 2018:

	Mexicali	Chihuahua	La Laguna-Durango	Total
Length of pipelines (km)	566	2,288	1,093	3,947
Number of customers:				
Residential	15,776	72,193	31,444	119,413
Commercial/industrial	382	2,069	1,032	3,483
Throughput (MMcfd):				
Residential	435	3,618	833	4,886
Commercial/industrial	25,599	35,190	11,325	72,114

Natural Gas and the Company's Market Opportunity

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

Natural Gas Customer Arrangements

The Company's residential customers are substantially all the customers (97.2% in terms of number of accounts), and contribute 46.6% of the profit margin of the distribution business as of December 31, 2018. The Company does not typically enter into long-term agreements with residential customers, and such customers pay the rates for distribution services that are established by the CRE. The Company invoices these customers on a monthly basis, and their service can be terminated by them or the Company at any time.

The commercial and industrial customers together account for approximately 2.8% of customers (in terms of number of accounts), but are responsible for approximately 93.7% of systems' aggregate throughput volume and over 53.4% of the distribution business profit margin as of December 31, 2018. The Company has entered into long- term supply agreements with certain of these customers; while the CRE sets the maximum rate the Company can charge for distribution service, the Company may negotiate a rate that is at a discount to the maximum authorized rate, in exchange for a long-term obligation from these customers to purchase contractual minimum volumes. In certain cases, customers are required to provide the Company with guarantees in the form of letters of credit or cash deposits.

Power Segment Overview

The company's power segment includes operation, construction and development projects, conformed by a natural gas combined cycle plant, four wind parks and four photovoltaic parks. A more detailed description of the businesses within power segment follows.

Natural Gas Fired Power Generation Business

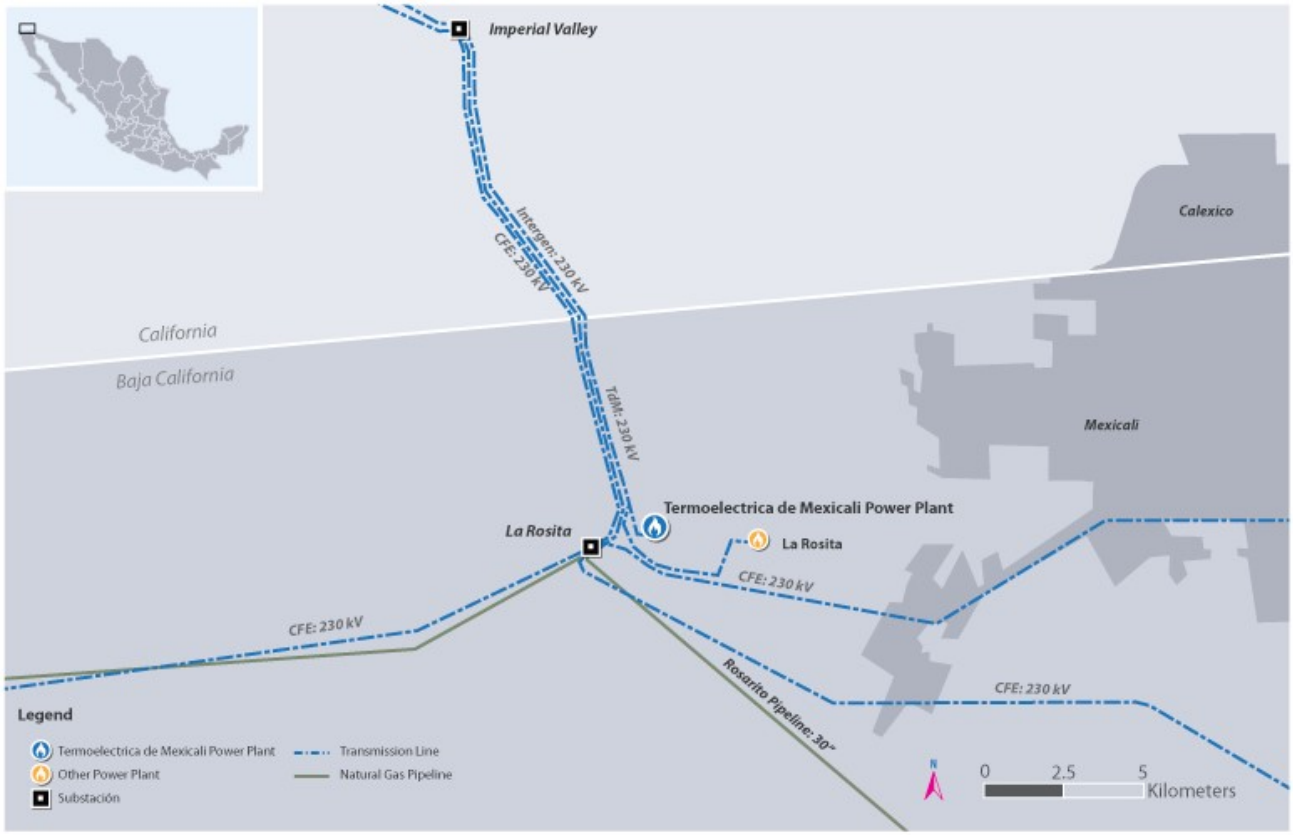
Termoeléctrica de Mexicali

The Company owns and operates the Termoeléctrica de Mexicali power plant, a combined-cycle power generation plant with a 625 MW capacity, natural-gas fueled and located in the city of Mexicali, Baja California. It commenced commercial operation in June 2003 and is well-positioned to access both the United States and Mexican electricity grids. The power plant is connected to the Gasoducto Rosarito pipeline system, which allows it to receive regasified LNG from the Company's LNG terminal as well as gas supplied from the United States on the North Baja pipeline.

This facility is a modern, efficient, combined-cycle plant that employs advanced environmental technologies that meet or exceed the environmental standards of both Mexico and California, it has General Electric MS7241FA gas turbines, inlet chilling and evaporative cooling components. The design of the facility also contributes positively to the environmental quality of the local area by using untreated sewage water for cooling that comes from the Zaragoza Lagoons in Mexicali, located 13 km from the site. The sewage water is received in the facility's water treatment plant and treated in biological reactors. This process eliminates biological contaminants and significantly reduces other contaminants in the water such as nitrogen, phosphorus, heavy metals, and agricultural and industrial chemicals, and salts. The treatment of this water improves water quality in the nearby irrigation canal (*Río Nuevo*).

Termoeléctrica de Mexicali is directly interconnected by a double-circuit 230 kilovolt dedicated transmission line to the grid controlled by the California Independent System Operator at the Imperial Valley substation and is capable of providing energy to a wide range of potential clients in California, U.S. While the entire output of the plant is currently sold to the U.S. grid, the physical interconnection may be modified to fully or partially supply production to CFE, based on studies elaborated by CENACE and subject to obtaining necessary permits.

The following map shows the location of the Termoeléctrica de Mexicali power generation facility:



Termoeléctrica de Mexicali, Key Agreements

Power Purchase Agreements

The Company is party to an energy management services agreement with Sempra Gas & Power Marketing, LLC (SGPM), regarding the electricity generated at the Company's Termoeléctrica de Mexicali power plant. Pursuant to this agreement, SGPM acts as a company agent to market and serve as scheduling coordinator for the Company's electricity sales and performs other related administrative, hedging and U.S. regulatory support tasks on the Company's behalf. Under this agreement, the company will pay SGPM a commission based on the service levels provided to the Company's Termoeléctrica de Mexicali power plant (among other factors, scheduled or commercialized energy volumes), and shall reimburse SGPM any expenses incurred thereto in connection with the provided services.

Natural Gas Purchase Agreement

The Company supplies between 67 MMcfd (0.7 MMThd) and 101 MMcfd (1.1 MMThd) of natural gas to the Termoeléctrica de Mexicali power generation facility, which is purchased directly from the Company's subsidiary IEnova Marketing.

Wind Power Generation Business

Energía Sierra Juárez

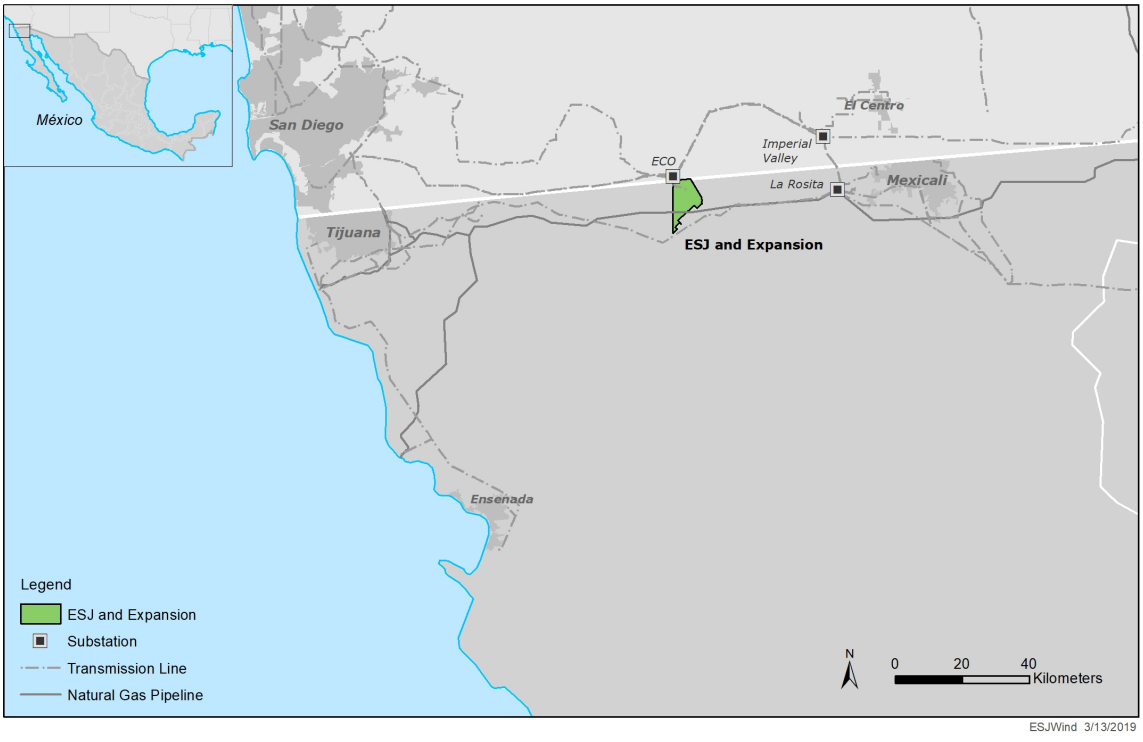
The Company developed and built the initial phase of Energía Sierra Juárez Wind Park, located along mountain ridges in the Sierra de Juárez Mountains in Baja California - one of the regions with the strongest wind resources on the west coast of North America. Initial phase started operations in March 2015 and it's located near the U.S border, about 112 km from San Diego, California in the U.S. Energía Sierra Juárez has interconnects to San Diego Gas & Electric East County substation, through a dedicated cross-border transmission line; it could also potentially connect directly with the Mexican power grid.

The initial phase of Energía Sierra Juárez generates up to 155 MW from 47 wind turbines 3.3MW each one, enough power for approximately 65,000 average U.S. homes. Based on five years of meteorological data, the Company expects that these wind turbines will operate at a net capacity factor of between 34% and 36% (net capacity factor is a measure of the percentage of peak power a facility generates on average over an extended period of time, reflecting wind resource availability and other factors). Electricity generated from the initial phase of Energía Sierra Juárez is sold entirely to SDG&E pursuant to a 20-year power purchase agreement. In July 2014, the Company sold a 50% interest in the initial phase of this project to certain affiliates of Actis.

In November 2017, the Company executed a 20-year power purchase agreement with San Diego Gas & Electric Company, through a new wind power generation facility that will be located near the initial phase of Energía Sierra Juárez. This second phase of the project will have a 108 MW capacity and will require an investment of approximately USD$150 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission (obtained in January 2018) and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

The Company believes that utility companies located throughout California are prime potential customers for the power generated by this project, and if the Company obtains additional permits it has the potential to also sell this power in the Mexican wholesale market. California is one of the most politically supportive regions in the United States for renewable power generation development, with a legislated target for renewable energy generation of 33% of retail sales by 2020 and 100% retail sales by 2045. Mexico is also politically supportive of renewable energies, and wind parks in particular.

The following map shows the approximate locations of Energía Sierra Juárez wind power generation facilities:



Energía Sierra Juárez Key Agreements

Power Purchase Agreement

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

Sale of Partnership Interest Agreement

In April 2014, the Company entered into an equity purchase and sale agreement with InterGen pursuant to which the Company sold a 50% of its holdings in the first phase of the Energía Sierra Juárez project to InterGen, thereby creating a 50/50 joint venture. The Company accounts for this joint venture under the equity method. As a condition to the sale of this equity interest the Company and InterGen entered into the joint venture agreements described below. During 2018, Actis acquired Intergen's equity interests, making it the new partner of this project. In addition, the joint venture assumed the remaining obligation to the Company on a previous intercompany loan to the Energía Sierra Juárez project, which had a principal balance and interest outstanding at December 31, 2018 of USD$3.3 million. The loan accrues interest at a rate equal to 30-day LIBOR plus 637.5 basis points (8.72% as of December 31, 2018).

Project Financing Agreement

In June 12, 2014, Energía Sierra Juárez, S. de R. L. de C. V., entered into a USD$239.8 million project financing facility. The project financing facility was entered into with a group of five banks: Mizuho Bank, as coordinating lead arranger, the NADB as technical and modeling bank, and NAFIN, NORD/LB and SMBC as lenders. Use of resources was project construction.

Upon completion of the initial phase of the project in 2015, this financing arrangement became an 18-year loan. Pursuant to the terms of the agreement, this loan matures on June 30, 2033 and is repayable in bi-annual installments on June 30 and December 30 of each year) beginning on December 30, 2015. The loan accrues interest at a rate equal to the six-month LIBOR plus the margins specified in the following table:

Period	Margin Over LIBOR
June 2014 – June 2015	2.375%
June 2015 – June 2019	2.375%
June 2019 – June 2023	2.625%
June 2023 – June 2027	2.875%
June 2027 – June 2031	3.125%
June 2031 – June 2033	3.375%

The loan outstanding balance as of December 31, 2018, was USD$206.0 million. Additionally, under the same loan agreement, there were outstanding letters of credit totaling USD$29.8 million.

ESJ Corporate Structure, the Company's joint venture with Actis

In July 2014 the Company and InterGen entered into two joint venture agreements. These agreements govern the Company's relationship with InterGen as it relates to the management of the Company's joint venture and respective financial rights and obligations. In addition, these agreements set forth the agreed upon budget for the development of the initial phase of the project and the procedure for the approval of future development budgets. During 2018, Actis acquired Intergen's equity interests, making it the new partner of this project.

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

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

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

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

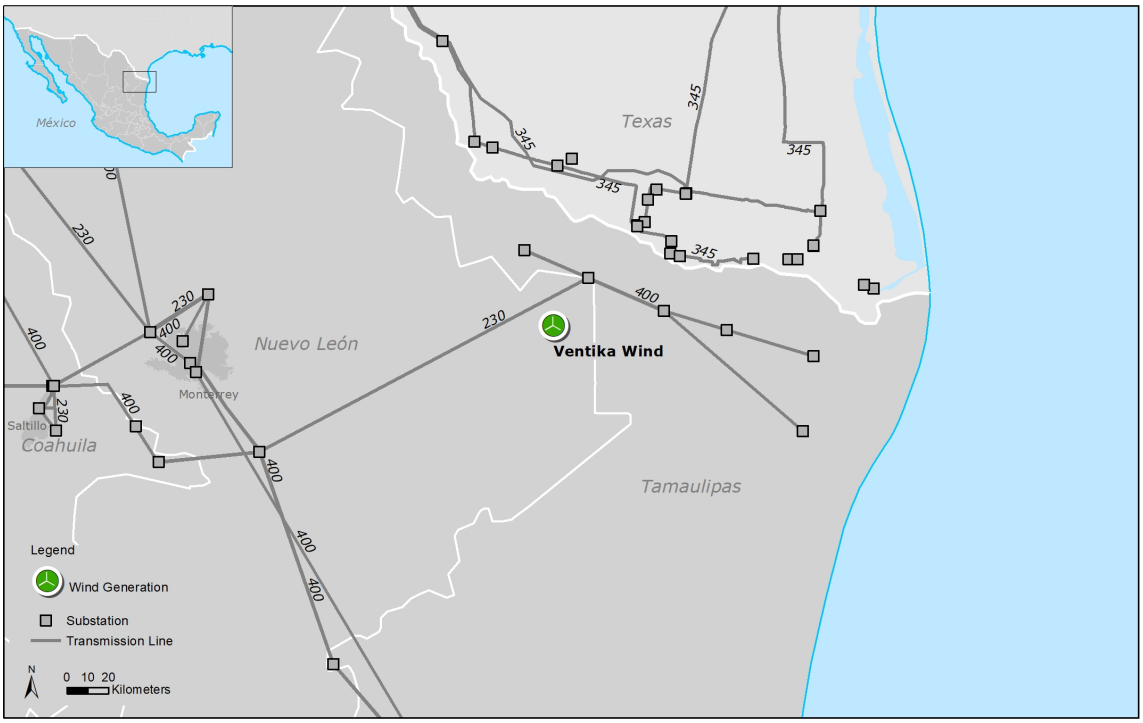
d. Transfers of Interests in the Joint Venture. The members may transfer their equity interests and interest in loans made by the members to the joint venture, provided that such member must transfer its entire interest to a single party if it effects any transfer, and provided that the transferee must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

Ventika

In December 2016, the Company acquired 100% of the equity interests of Ventika. The project is located in the State of Nuevo León, approximately 56 km from the U.S. border. It is powered by 84 turbines and provides an aggregate of up to 252 MW of generating capacity. The price paid was USD$920 million, including USD$435 million in cash and USD $485 million of existing bank indebtedness.

Ventika includes 2 adjacent wind parks with a capacity of 126 MW each, Ventika I and Ventika II, both with a capacity of 252 MW through 84 3MW wind turbines. Ventika I and Ventika II operate as a single wind park and are located in the state of Nuevo León.

The following map shows the location of Ventika:



Ventika wind park was jointly developed by the previous partners, Fisterra Energy (Blackstone portfolio) and CEMEX, and began operations on April 2016. For a description of Ventika's construction financing, see: “Management’s Discussion and analysis of Financial Condition and Results of Operations - Liquidity and Financing Sources - Ventika Credit Agreement and Project Financing."

Until December 2018, an affiliate of Acciona, a leading global company in the development and management of renewable energy assets, provided operation and maintenance services to the facilities, in accordance with the operation and maintenance contracts that could be renewed every five years. Asset management services are provided by CEMEX in accordance with asset management agreements with a 1-year term, ending on December 2019.

Ventika Key Agreements

Power Purchase Agreement

Ventika has power supply agreements that, when considered jointly, constitute agreements to purchase 100% of the capacity of the wind parks of 252 MW for 20 years beginning April 2016. Such agreements have been executed with subsidiaries, affiliates and related parties of FEMSA, CEMEX, FCA, DeAcero and Tecnológico de Monterrey. The agreements are denominated in U.S. Dollars at fixed prices, and they are adjusted annually at 2.5%.

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

CFE requires capacity payments to industrial and commercial energy users. As an incentive to the self- generators, CFE credits the capacity payments made to the energy self-generation facilities and that do not use the capacity of CFE. Under the power supply agreements, each counterparty shall undertake such capacity payments to Ventika.

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

Operation and Maintenance Agreement

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

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

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

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

Asset Management Agreement

Ventika and CEMEX agreed to terminate asset management services agreement and start a new 1-year contract, starting on January 1st, 2019, under which CEMEX agrees to render invoicing services and manage self-supply and interconnection agreements. Since January 2019, The Company has been handling management and monitoring of assets, inventory, accounts receivable and other assets and services; as well as assuring compliance of Ventika's key agreements, including those derived from engineering, procurement and construction; maintenance and operation, financing, communication and managing financial aspects with creditors, etc.

Credit Agreement, project finance

For the construction and start of operations of the wind parks, each of Ventika I and Ventika II obtained a senior project finance loan for the total aggregate amount of USD$485 million. The creditor banks are: NADB, Banobras, NAFIN, Bancomext, and Santander. As of December 31, 2018, the balance is USD$443.8 million.

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

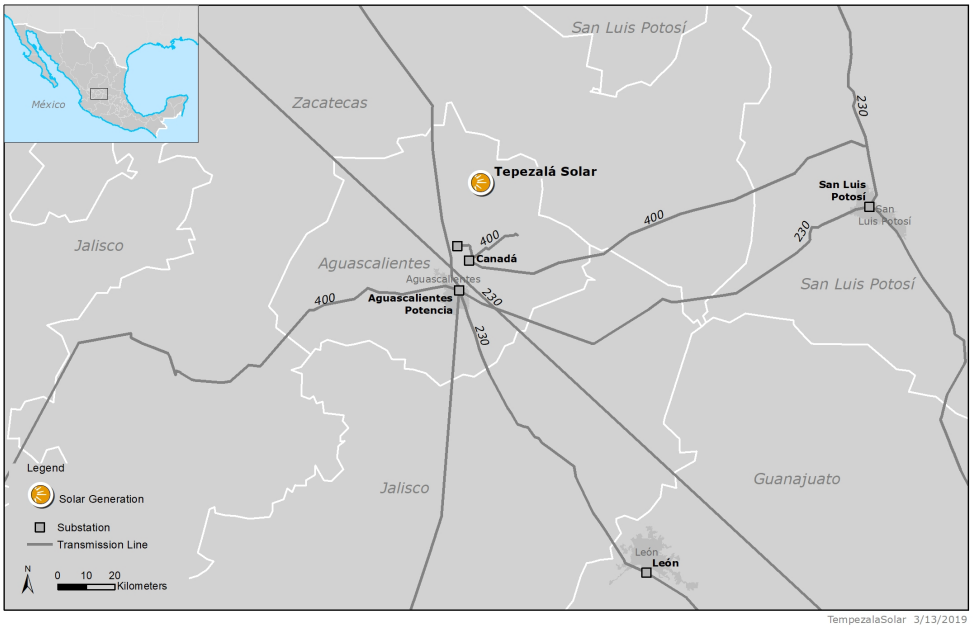
All the outstanding capital stock of Ventika I and Ventika II, as well as substantially all of their assets, guarantee the payment obligations under Ventika I and Ventika II financing. The financing is subject to the project finance method and neither the company nor Controladora Sierra Juárez have assumed a direct payment obligation to the lenders. The company guarantees the debt service payment through credit letters, as of December 31, 2018 total amount in credit letters was at USD $26.1 million.

Solar Power Generation

Tepezalá Solar

In January 2017, the Company announced the execution of a 20-year power purchase agreement and two 15-year power purchase agreements with the CFE, for the sale of the energy generated by the 100 MW_{AC} Tepezalá Solar project to be located in the State of Aguascalientes. The agreements include 20 years for the clean energy certificates and 15 years for the capacity. The Tepezalá Solar project will be developed and constructed by the Company in collaboration with Trina Solar. Trina Solar will have a 10% minority interest in the project. Trina Solar is a company dedicated in the production of photovoltaic solar panels and optimization of solar energy systems. The company expects that the Tepezalá Solar project will start commercial operations in the second quarter of 2019 with an investment of approximately USD$100 million.

The following map shows the location of Tepezalá Solar:



Rumorosa Solar

In January 2017, the Company announced the execution agreements with the CFE, for the sale of the energy products generated by the 41 MW_{AC} Rumorosa Solar project to be located in the State of Baja California near the Energía Sierra Juárez wind park. The agreements include 20 years for the clean energy certificates and 15 years for the energy. The company expects that the Rumorosa Solar project will start commercial operations in the second quarter of 2019 and with an investment of approximately USD$50 million.

The following map shows the location of Rumorosa Solar:



Pima Solar

In March 2017, the Company announced the execution of a 20-year contract with DeAcero for the supply of energy, clean energy certificates and capacity from a new photovoltaic solar power plant, located in Caborca, Sonora. The company developed, constructed and operates the 110 MW_{AC} Pima Solar project. Pima's solar commercial operations started at first quarter of 2019, with an investment of approximately USD$115 million.

The following map shows the location of Pima Solar:

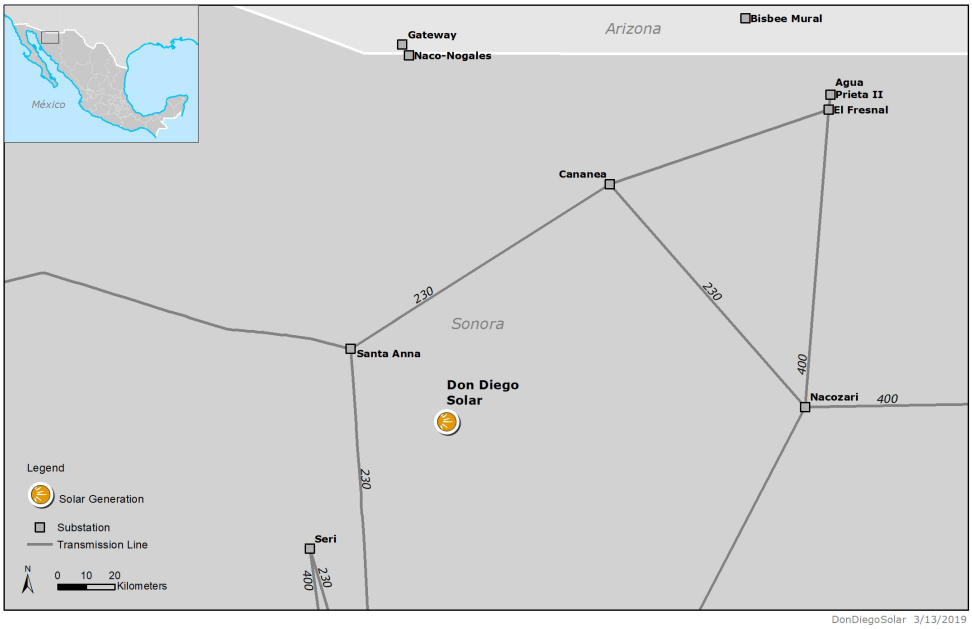


Don Diego Solar

In February 2018, the Company announced the execution of a 15-year electricity supply contract with various subsidiaries of Liverpool. The agreement includes the purchase and sale of electricity, which electricity will be generated by Don Diego Solar, a new solar power plant that will be located in the municipality of Benjamin Hill in the state of Sonora.

The plant will have the capacity to supply Liverpool and other large energy consumers. The company will develop, construct and operate Don Diego Solar project, with a capacity of 125 MW_{AC}. Commercial operations are expected to begin in the fourth quarter of 2019 with an estimated investment of USD$130 million.

The following map shows the locations of Don Diego Solar:



Real Property and Land-Use Rights

Gas Segment

Pipelines Business

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

Liquefied Natural Gas Business

The LNG terminal is located on approximately 450 hectares of land owned in a relatively remote, previously undeveloped area of the Baja California coast. The terminal's marine facilities include a single jetty and dock with provision to install a second jetty and dock. The marine facilities have been approved by the CRE to accept LNG ships that have a capacity of 70,000 m^3 to 217,000 m^3 (16.0 MMTh to 49.7 MMTh). A portion of this land has been leveled and graded for the potential expansion of the facility to include two additional LNG storage tanks. The Company also holds a 30-year concession for the occupation and use of federal maritime terrestrial zone adjacent to its property, which is subject to periodic renewals. The concession title covers a jetty and berth, among other infrastructure ancillary to the LNG terminal. The Company is currently facing certain lawsuits related to the real property on which the Company's LNG terminal is located. See "– Legal, Administrative and Arbitration Proceedings – *Matters on ECA*."

Natural Gas Distribution Business

The real property of the natural gas distribution business principally consists of easements, rights-of-way, permits, licenses and leases from governmental authorities or private property owners. The pipelines of the natural gas distribution system typically run along public roads and in such instances the Company pays the local municipality for the right to maintain and operate the Company's distribution system along such roads. Where the pipelines of the distribution system enter the property of the Company's customers, the Company has easements allowing the Company to access their property, as well as to maintain and operate the distribution system. In the case of La Laguna – Durango and Chihuahua distribution zones, the Company also leases some rights-of-way from Pemex. Approximately 96% of the total length of the Company's pipelines network is underneath public roads. The Company believes that the Company has satisfactory title to all of its material easements, rights-of-way, permits, licenses and leases. In addition, the Company leases an aggregate of approximately 17,600 meters of office and commercial space in Chihuahua, Torreón and Mexicali, for approximately USD$0.3 million per year.

Refined Products Business

For the Veracruz marine liquid storage terminal, the Company was granted, through a 20-year assignment of concession rights belonging to Port of Veracruz, an approximate area of 12 hectares with 300 meters of land next to the coast, to develop, build and operate a Marine terminal for the receipt, storage and delivery of hydrocarbons.

The Company was granted a partial assignment contract of concession rights for 9.7 hectares of land surface and 1.9 of coast surface by the Port Authority Integral of Topolobampo, in Sinaloa, for the development of a marine hydrocarbon storage terminal.

Additionally, the Company will develop two land terminals for the storage and delivery of hydrocarbons, which will be located in Puebla and Valle de México. For the Puebla terminal, the Company is in the process of acquiring land for the project through 20-year term usufructs, with two additional 20-year periods extensions, with an option to purchase on agrarian lands *(ejido)*. For the Valle de Mexico terminal, the Company has acquired most of the land for the project through private purchase and through 20-year term usufructs, with extensions up to 20 years.

The Baja Refinados marine terminal will be located within the La Jovita Energy Center, 23 km north of Ensenada, B.C. The project is acquiring approximately 25 hectares through purchase, leases and easements for the development.

Regarding the marine terminal for reception, storage and delivery of refined products in Manzanillo, Colima, the Company executed a contract with Trafigura for 50% of the initial storage capacity and the Company acquired 51% of the equity of the company whose subsidiary owns land where the terminal will be built.

Finally, the LPG Storage terminal, which is currently operating, is located on approximately 44 hectares of land owned by the Company, which is located in the municipality of Zapotlanejo, Jalisco.

Power Segment

The Company's Termoeléctrica de Mexicali power plant owns approximately30.6 hectares of real property located approximately 15 km west of Mexicali, Mexico and five km south of the Mexico–U.S. border. The plant and ancillary assets, including the sewage-water treatment plant, are located on property owned by the Company. The Company also holds rights of way obtained from the U.S. Bureau of Land Management with respect to the property upon which the generation tie-line runs into the United States to connect the power plant to the Imperial Valley substation. The Company holds title to various permits and agreements relating to certain rights-of-way for the aqueduct that services the power generation plant, including those for the occupation and crossing of public lands.

With respect to the Energía Sierra Juárez wind project, who's the initial phase started operations in June 2015, the Company entered into a lease agreement in November 2006 with agrarian land (*ejido)*, when the first phase was built. The contract has an initial term of 30 years and each provides for extensions of up to 30 additional years.

The Energía Sierra Juárez expansion of the wind power generation facility for the electric supply for San Diego & Electric Company under the power purchase agreement executed by Energía Sierra Juárez 2 U.S., LLC on November 16, 2017, will be located within a large part of the leased area owned by Ejido Jacumé.

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

Regarding solar projects, the Company is developing Tepezalá Solar power project located in Aguascalientes, for which the Company has entered into various leases approximately 334 hectares with agrarian land *(ejido*). The company has negotiated the right of way for the transmission line and the access roads are contracted. All of these leases have an initial term of 20 years and each provides for four extensions of 5 years each.

For the development of Don Diego Solar project located in Benjamin Hill, Sonora, the company leased 498 hectares from a private party. This lease has an initial term of 20 years and provides for extensions of up to 10 additional years.

The Rumorosa Solar project located in Mexicali, Baja California near the Energía Sierra Juárez wind power generation facility, has land use rights by means of usufructs for approximately 135 hectares with an initial term of 20 years with two extensions of up to 20 years each, and rights-of-way for 8.3 hectares with an initial term of 30 years with extensions for up to 30 additional years, both are executed with the Benito Juárez Ejido.

Finally, the Pima Solar project located in Caborca, Sonora, the Company has leased approximately 150 hectares with an initial term of 20 years with extensions of up to 20 additional years. It has also contracted rights-of-way for 15 hectares for an indefinite time.

Except for the instances described within this section, the Company believes it has satisfactory leasehold estates to such lands. The Company has no knowledge of any material challenge to the underlying title of any of its material leases, easements, rights-of-way, permits or usufructs, and the Company believes that it has satisfactory title to all of its material leases, rights-of-way, permits and usufructs.

Insurance

The Company's projects under construction and operating assets are covered by insurance under policies that the Company believes are comparable with those maintained by other companies engaged in similar businesses and protect the integrity of the people, communities, environment and property of the Company based on regulatory compliance and best international practices.

For both stages, construction and operation, the Company considers at least the following policies insurance: (1) General and Environmental Civil Liability Insurance against third parties for physical injuries, property damage and sudden and spontaneous contamination; (2) Vehicle Liability Insurance against third parties for physical injuries and goods' damages caused by the vehicle operation, leased or third-party vehicles used by Company employees during the performance of their duties; and (3) Property Insurance that covers the replacement value of all real and personal property belonging to the Company and including coverage against losses caused by the breakdown of equipment, earthquake, fire, explosion, hydrometeorological phenomena, terrorism as well as the delay in startup and interruption of business as a result of said eventualities.

All insurance policies are subject to the terms, conditions, limits, exclusions and deductibles accepted in the industry and which are similar to those applicable to other companies in the energy sector. The Company has several insurance programs guaranteed by insurance companies and local and international reinsurers with an investment grade credit rating on a global scale.

xi) Legal, Administrative and Arbitration Proceedings

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

Matters on ECA

a. *Motions for review (recurso de revisión) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdez Castañeda ("Castro* and *Valdez"),* jointly, and Monica Fabiola Palafox ("Palafox"), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT)* to challenge the issuance of the MIA of the ECA Terminal granted in April 2003, based on allegations similar to IVG's (*Inmuebles Vista Golf*) allegations. SEMARNAT dismissed the motions and the plaintiffs filed motions for annulment against the respective rulings before the Federal Court of Tax and Administrative Justice *(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA),* in Mexico city. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdez, SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdez filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a constitutional claim (*amparo*) against the ruling whereby the TFJFA ordered the admittance of the motion filed by *Valdez*. In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdez and Palafox are unfounded.

Finally, against the resolution of dismissal Roberto Valdez filed an annulment proceeding that was resolved denying the annulment to the complainant by means of a judgment published in January 2017.

b. *Salomón Arya Furst* and *Abraham Hanono Raffoul* filed before the Unitary Agrarian District Court of *Ensenada* a claim against the Ministry of Agrarian Reform *(Secretaría de la Reforma Agraria),* ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA's Terminal is located, as well as the restitution of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the owners prior to ECA were issued improperly and without considering the existing property rights of such immovable property. In September 2011 a definitive hearing on the subject was held, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before the judgment, was issued, the plaintiffs filed a constitutional claim *(amparo*) against the refusal of the judge to the admittance of the evidence. The decision of the judge is suspended by the constitutional claim *(amparo),* and, the constitutional trial cannot continue until the Court serves notice of the claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

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

On November 3, 2017, a diligence for inspection and study on site was carried out by various experts offered by the litigants. To date all experts have surrendered their respective opinions. The Agrarian Court has ordered the issuance of an expert opinion of a third party and is requesting the Superior Agrarian Court, the appointment of an expert for this purpose

c. On September 1, 2018, Banco Santander (México) as a fiduciary in the trust fund number 53153-0 in representation of the community of Baja Mar residents located in Ensenada, Baja California filed a constitutional claim *(amparo)*.

The objective of this claim was to stop the issuance of permits from energy and environmental federal authorities in favor of our company to build the project of ECA liquefaction, which includes the operation of the existing regasification plant and the construction of a self-supply power plant.

The plaintiffs argue that the authorities did not consult the community neighbors and they also challenge the constitutionality of the legal provision that states that these consultations are not required for the permits' expedition.

In the last ancillary hearing, held on April 11, 2019, the federal judge granted a definitive motion to stay, in order for permits not to be issued until the case is concluded, for this purpose, the judge requested the plaintiffs to exhibit a guarantee for one million pesos within 5 business days, otherwise, the motion to stay will lose its effects.

The constitutional hearing, where evidence and allegations by the parties are brought forward, was scheduled for April 29, 2019.

The operation of ECA's Terminal has not been affected as a result of the proceedings described above and they continue operating normally during the process thereof. However, if any of such proceedings was resolved unfavorably for the Company, the operations of ECA's Terminal might be affected adversely and significantly, which in turn might have a significant adverse effect on the activities, perspectives, the financial position, the operation results and the cash flows of the Company.

Except for the affairs stated above, neither the Company nor its assets are subject to any other legal action different from those arisen in the normal course of business.

CAPITAL STOCK

xii) Shareholders' equity

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

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

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

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

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

On March 21, 2013, the Company placed a Global Offering of shares. Through the Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Mexican pesos per share. The offering included an over-allotment option of up to 28,449,196 shares. The value of this Global Offering was USD$520.7 million ($6.4484 billion Mexican pesos).

On March 27, 2013, the initial purchasers and the Mexican underwriters exercised in full their over-allotment options for an aggregate purchase price of USD$78.1 million (Ps.$967 million), which correspond to 28,449,196 shares at a placement price of Ps$34.00 each.

At an extraordinary shareholders' meeting held September 14, 2015, the Company's shareholders approved a Ps.$3.3 billion increase in the Company's capital through the issuance of new shares.

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

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

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

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

		As of December 31, 2018 (Mexican Pesos)			
Shareholders	**Number of shares**	**Fixed capital**	**Variable capital**	**Total**	**Total equity (in thousands of US Dollars)**
Semco Holdco, S. de R. L. de C. V.	1,019,038,312	50,000	10,190,333,120	10,190,383,120	751,825
Public investors	514,985,500	-	5,149,855,000	5,149,855,000	211,447
	1,534,023,812	50,000	15,340,188,120	15,340,238,120	963,272

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

DIVIDENDS AND DIVIDEND POLICY

xiii) Dividends

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

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

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

During the three-year period ended December 31, 2018, 2017 and 2016, the Company paid dividends on three occasions:

- On August 21, 2018, in the amount of USD$210.0 million;
- On August 15, 2017, in the amount of USD$200.0 million; and
- On August 9, 2016, in the amount of USD$140.0 million.

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

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

a) Selected Financial Information

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

The Company derived the consolidated statements of income data for the years ended December 31, 2018, 2017 and 2016 and the consolidated statements of financial position data as of December 31, 2018, 2017 and 2016 from its audited financial statements included elsewhere in this report. You should read this data together with the Company's audited financial statements and related notes included elsewhere in this report and the information under the captions "*Presentation of Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Consolidated Statements of Profit

(in thousands of U.S. Dollars)	Year ended December 31,		
	2018	**2017**	**2016**
Revenues	1,368,555	1,222,905	767,089
Cost of revenues	(385,791)	(331,846)	(270,885)
Operating, administrative and other expenses	(214,519)	(202,982)	(122,270)
Depreciation and amortization	(137,157)	(119,020)	(66,606)
Impairment of Termoeléctrica de Mexicali	—	(63,804)	(136,880)
Interest income	27,449	22,808	6,294
Finance cost	(122,879)	(73,501)	(21,092)
Other gains (losses), net	8	(40,900)	773
Remeasurement of equity method investment [(1)]	—	—	673,071
Profit before income taxes and share of profits of joint ventures	**535,666**	**413,660**	**829,494**
Income tax expense	(143,064)	(104,163)	(117,345)
Share of profits of joint ventures, net of income tax	37,984	44,677	42,841
Profit for the year	**430,586**	**354,174**	**754,990**

[(1)] In 2016, the non-cash gain of USD$673.1 million is related to the remeasurement to fair value of our previously held 50 percent interest in IEnova Pipelines, formerly Gasoductos de Chihuahua.

Consolidated Statements of Financial Position

(in thousands of U.S. Dollars)	As of December 31,		
	2018	**2017**	**2016**
Assets			
Current assets:			
Cash and cash equivalents	51,681	37,208	24,918
Short-term investments	83	1,081	80
Trade and other receivables, net	153,649	94,793	100,886
Assets held for sale	—	148,190	191,287
Other current assets[(1)]	258,528	233,741	127,769
Total current assets	**463,941**	**515,013**	**444,940**
Non-current assets:			
Due from unconsolidated affiliates	646,297	493,887	104,352
Finance lease receivables	932,375	942,184	950,311
Deferred income tax assets	80,853	97,334	89,688
Investments in joint ventures	608,708	523,102	125,355
Property, plant and equipment, net	4,086,914	3,729,456	3,614,085
Intangible assets	190,772	190,199	154,144
Goodwill	1,638,091	1,638,091	1,638,091
Other non-current assets[(2)]	120,646	34,593	5,982
Total non-current assets	**8,304,656**	**7,648,846**	**6,682,008**
Total assets	**8,768,597**	**8,163,859**	**7,126,948**
Liabilities and Stockholders' equity:			
Short-term debt	870,174	262,760	493,571
Due to unconsolidated affiliates	310,696	544,217	260,914
Liabilities held for sale	—	62,522	35,451
Other current liabilities[(3)]	264,761	184,418	181,738
Current liabilities	**1,445,631**	**1,053,917**	**971,674**
Non-current liabilities			
Long-term debt	1,675,192	1,732,040	1,039,804
Due to unconsolidated affiliates	75,161	73,510	3,080
Deffered income tax liabilities	566,892	551,614	489,607
Other non-current liabilities[(4)]	251,971	236,191	272,472
Total non-current liabilities	**2,569,216**	**2,593,355**	**1,804,963**
Total liabilities	**4,014,847**	**3,647,272**	**2,776,637**
Stockholders' equity			
Common stock	963,272	963,272	963,272
Additional paid-in capital	2,351,801	2,351,801	2,351,801
Treasury shares	(7,190)	—	—
Accumulated other comprehensive loss	(104,105)	(114,556)	(126,658)
Retained earnings	1,536,662	1,316,070	1,161,896
Total equity attributable to owners of the company	**4,740,440**	**4,516,587**	**4,350,311**
Non-controlling interests	**13,310**	—	—
Total stockholders' equity	**4,753,750**	**4,516,587**	**4,350,311**
Total stockholders' equity and liabilities	**8,768,597**	**8,163,859**	**7,126,948**

(1) Other current assets include current finance lease receivable, due from unconsolidated affiliates, taxes receivables, natural gas inventories, derivative financial instruments, current carbon allowances, other current assets and restricted cash.

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

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

(4) Other non-current liabilities include non-current carbon allowances, provisions, derivative financial instruments, employee benefits and other non-current liabilities.

Other Financial and Operating Data

(in thousands of U.S. Dollars)	Year ended December 31,		
	2018	**2017**	**2016**
Acquisitions for property, plant and equipment	392,073	224,816	315,810
EBITDA	**768,245**	**688,077**	**373,934**
Adjusted EBITDA	**876,366**	**758,640**	**504,020**
Adjusted EBITDA by business segment:			
Gas segment	716,007	663,023	481,293
Power segment	160,790	103,673	23,425
Corporate	(431)	(8,056)	(698)

EBITDA and Adjusted EBITDA

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

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

The Company defines Adjusted EBITDA as EBITDA plus Joint Ventures (JV) EBITDA adjustment.

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

	Year ended December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**
Gas segment	626,797	610,828	369,721
Power segment	141,879	85,305	4,911
Corporate	(431)	(8,056)	(698)
EBITDA	**768,245**	**688,077**	**373,934**
JV EBITDA Adjustment	108,121	70,563	130,086
Adjusted EBITDA	**876,366**	**758,640**	**504,020**

Selected Financial Quarterly Information

(thousands of USD$, except data per share)	Three months ended December 31, 2,018	2,017
Revenues	$ 345,903	$ 315,530
Profit before income tax and share of profits of joint ventures	96,754	76,517
Profit for the period	88,622	36,728
Earnings per share	$ 0.06	$ 0.02

In the fourth quarter of 2018, revenues were USD$345.9 million, compared with USD$315.5 million in the same period of 2017. The increase of USD$30.4 million was mainly due to higher revenue at the Termoeléctrica de Mexicali power plant due to higher prices and volumes, higher prices of natural gas sold and higher power volumes at Ventika.

In the fourth quarter of 2018, profit before income tax and share of profits of joint ventures was USD$96.8 million, compared with USD$76.5 million in the same period of 2017. The increase of USD$20.3 million was mainly due to higher operational results at the Termoeléctrica de Mexicali power plant.

In the fourth quarter of 2018, profit was USD$88.6 million, or USD$0.06 per share, up 141 percent from USD $36.7 million, or USD$0.02 per share, in the same period of 2017. The increase of USD$51.9 million, or USD$0.04 per share, was mainly due to non-cash exchange rate effects, the Termoeléctrica de Mexicali power plant higher operational results and the November 2017 acquisition of the remaining 50 percent of Ductos y Energéticos del Norte.

b) Financial Information by Business Segment

Segment Information

Below is a presentation of the Company's financial information by business segment, which is derived from the Company's audited financial statements.

Products and Services from Which Reportable Segments Derive Their Revenues

The Company operates in the energy sector. The Company is organized into two operating segments, Gas and Power. The amounts identified as Corporate correspond to IEnova as a holding company.

- gas segment, which includes natural gas, LNG and LPG transportation through pipelines and storage, natural gas compression, ethane transportation in liquid and gas phases, natural gas distribution business and refined products storage; and

- power segment, which includes the electricity generation at the natural gas-fired combined cycle power plant, four wind power generation facilities and four photovoltaic solar power plants, of which one wind park and three photovoltaic power generation plants are under construction.

In addition, certain revenue and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which are referred to as corporate. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

In February 2016, the Company's board of directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant (TDM). As a result, beginning in 2016, the results of the TDM power plant were reclassified and included in consolidated financial statements under discontinued operations, net of income tax. In June 2018, the board of directors determined to end such sale process, therefore, its financial results were again reclassified in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, and are currently presented as continuing operations in consolidated financial results. In order to provide a meaningful comparison, for purposes of this Report, the Company re-presented its historical consolidated financial statements for the fiscal years ended December 31, 2017 and 2016 to reflect the financial results of the TDM power plant under continuing operations. See Note 12 to Company's audited financial statements, included elsewhere in this Report.

Results of Operations by Business Segment

Segment Revenues

The following is an analysis of the Company's revenues and results from continuing operations by reportable segment.

(in thousands of U.S. Dollars)	Years ended December 31,		
	2018	**2017**	**2016**
Gas:			
Revenues from customers	919,783	888,647	548,947
Revenues from unconsolidated affiliates	138,752	103,043	101,998
Intersegment sales	329,527	309,179	238,147
Power:			
Revenues from customers	99,592	99,164	12,315
Revenues from unconsolidated affiliates	208,652	130,192	101,192
Corporate:			
Allocation of professional services with unconsolidated affiliates	1,776	1,859	2,637
Intersegment professional services	34,974	29,970	29,484
Intersegment adjustments and eliminations	(364,501)	(339,149)	(267,631)
Total segment revenues	**1,368,555**	**1,222,905**	**767,089**

Segment Profit

(in thousands of U.S. Dollars)	Years ended December 31,		
	2018	**2017**	**2016**
Gas	445,259	463,483	912,370
Power	65,357	(34,316)	(104,900)
Corporate	(80,030)	(74,993)	(52,480)
Total segment profit	**430,586**	**354,174**	**754,990**

Assets and Liabilities by Segment

(in thousands of U.S. Dollars)	Years ended December 31,		
	2018	**2017**	**2016**
Assets by segment:			
Gas	6,705,011	6,425,446	5,716,175
Power	1,356,815	1,170,970	1,241,689
Corporate *	706,771	567,443	169,084
Consolidated total assets	**8,768,597**	**8,163,859**	**7,126,948**
Liabilities by segment:			
Gas	1,066,774	1,031,448	983,424
Power	655,386	652,502	641,479
Corporate	2,292,687	1,963,322	1,151,734
Consolidated total liabilities	**4,014,847**	**3,647,272**	**2,776,637**

* Corporate Segment. The chief decision makers have decided to reclassify retrospectively the amounts of USD$39.7 in assets and USD$0.8 million in liabilities as of December 31, 2017, related to refined petroleum storage terminals included in Corporate segment to the Gas segment, considering more appropriate to include operations and assets to this segment. See Note 2.29 to Company's audited financial statements, included elsewhere in this Report.

Other Information by Segment

	Property, plant and equipment Years ended December 31,			Accumulated depreciation Years ended December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Gas	3,777,923	3,569,528	3,354,683	(616,526)	(510,744)	(424,639)
Power	1,150,247	686,195	677,440	(232,776)	(24,885)	(1,807)
Corporate	19,685	18,881	16,191	(11,639)	(9,519)	(7,783)
	4,947,855	**4,274,604**	**4,048,314**	**(860,941)**	**(545,148)**	**(434,229)**

	Depreciation and amortization Years ended December 31,			Additions to Property, plant and equipment Years ended December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Gas	100,794	86,182	60,703	218,811	205,452	692,853
Power	34,228	31,049	4,356	222,384	8,373	673,808
Corporate	2,135	1,789	1,547	1,550	3,237	1,376
	137,157	**119,020**	**66,606**	**442,745**	**217,062**	**1,368,037**

	Interest income			Finance (cost) income		
	Years ended December 31,			Years ended December 31,		
(in thousands of U.S. Dollars)	2018	2017	2016	2018	2017	2016
Gas	2,105	813	959	(12,074)	3,371	23,144
Power	804	963	1,176	(23,631)	(25,573)	(1,542)
Corporate	24,540	21,032	4,159	(87,174)	(51,299)	(42,694)
	27,449	**22,808**	**6,294**	**(122,879)**	**(73,501)**	**(21,092)**

	Share of profits for joint ventures, net of income tax			Income tax (expense) benefit		
	Years ended December 31,			Years ended December 31,		
(in thousands of U.S. Dollars)	2018	2017	2016	2018	2017	2016
Gas	34,158	41,094	40,284	(107,875)	(97,340)	(132,951)
Power	3,826	3,583	2,557	(22,861)	(3,972)	30,889
Corporate	—	—	—	(12,328)	(2,851)	(15,283)
	37,984	**44,677**	**42,841**	**(143,064)**	**(104,163)**	**(117,345)**

Revenue by Type of Product or Services

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

(in thousands of U.S. Dollars)	Years ended December 31,		
	2018	2017	2016
Transportation of gas	483,458	438,277	175,217
Power generation	307,039	229,934	113,127
Sale of natural gas	258,966	176,334	145,912
Other operating revenues	133,646	156,306	145,943
Storage and regasification capacity	112,923	109,837	97,168
Natural gas distribution	72,523	112,217	89,722
	1,368,555	**1,222,905**	**767,089**

Other operating revenues

IEnova Marketing received payments from Sempra LNG International Holdings LLC ("SLNGIH") and Sempra Natural Gas related to the losses and obligations incurred in the amount of USD$98.5 million, USD$103.0 million and USD$102.0 million for the years ended December 31, 2018, 2017 and 2016, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit

On August 3, 2018, as a part of dissolution of SLNGIH there was a deed of termination executed between IEnova Marketing and SLNGIH, transferring indemnity obligations under the deed of indemnity from SLNGIH back to Sempra Natural Gas by executing the Third Amended and Restated LNG Sale and Purchase Agreement (LNG SPA) between IEnova Marketing and Sempra Natural Gas.

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 Sásabe-Puerto Libertad-Guaymas segment remains in full operation.

c) Material Financing Arrangements

Revolving Loan Agreement with SMBC

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to USD$400.0 million with a syndicate group of four banks including Santander, MUFG, The Bank of Nova Scotia and SMBC. The revolving credit has the following characteristics:

- U.S. Dollar-denominated.
- Twelve-month term, with an option to extend up to five years.
- Financing to repay and cancel the previous loans contracted in 2014 with Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015 the Company entered into an amended agreement in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders. It agreed to increase the amount of the line of credit under the credit agreement to a maximum aggregate amount of USD$600 million from the previously authorized maximum of USD $400 million. See note 22 to the Company's audited financial statements included elsewhere in this report.

Withdrawal of credit line. In July 2016, the Company withdrew USD$380 million of such credit line to be used for working capital and general corporate purposes. In December 2016 the Company withdrew USD$375 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On November 3, 2016, the Company entered into a second amendment agreement in connection with the revolving credit mentioned above, whereby it agreed to increase the amount of the credit line under the credit agreement to a maximum aggregate amount of USD$1,170 million. On December 31, 2016 USD$200 million of this revolving credit was paid.

In February 2019, the Company executed a revolving credit agreement of USD$1,170 million, it entered into an amendment agreement to (i) increase the amount of the credit line under the Credit Agreement to USD$1,500 million, (ii) extend the term thereof from August 2020 to February 2024 and (iii) include JP Morgan and Credit Agricole to the lenders' syndicate.

As of December 31, 2018, the amount of available unused credit is USD$362 million.

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

Public Offering of CEBURES

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

It issued a series of 10-year, 6.30% Notes in the principal amount of Ps.$3.9 billion (USD$306 million) and a series of 5-year floating-rate Notes in the principal amount of Ps.$1.3 billion (USD$102 million) that accrue interest at the TIIE rate plus 30 basis points. The Company paid the 5-year series at maturity on February 8, 2018.

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

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

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

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

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

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

These agreements have been designated as cash flow hedges.

On February 8, 2018, the Company fully paid Ps. $1.3 billion related to the second series, or 5-year CEBURES.

Senior Notes international private placement

In December 2017, the Company completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.75% due 2028 and USD$540 million aggregate principal amount of the Company's 4.88% Senior Notes due 2048.

The Senior Notes received an investment grade rating from Fitch (BBB+), Moody's (Baa1) and Standard & Poor's (BBB). The Company used the net proceeds of approximately USD$807 million from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

The Senior Notes were offered and sold in a private placement to qualified institutional buyers in the United States pursuant to Rule 144A and outside the United States pursuant to Regulation S under the United States Securities

Act of 1933, as amended (the "Securities Act"). The Company did not register the Senior Notes in Mexico or United States. The Senior Notes were registered in the Singapore Exchange Securities Trading Limited.

IEnova Pipelines, formerly Gasoductos de Chihuahua, Long Term Credit Agreements

On December 5, 2013, IEnova Pipelines entered into a USD$490 million credit agreement with BBVA Bancomer, MUFG, Mizuho and Nord LB, for the purpose of financing the Los Ramones I gas pipeline project. The financing was contracted for a term of 13.5 years, with quarterly capital amortizations, yield an interest equivalent to a LIBOR rate of 90 days plus 200 to 275 basis points. This financing is guaranteed with collection rights for certain GdC projects. The cash provisions of this loan began in 2014.

As of December 31, 2018, the outstanding debt amounts to approximately USD$288.8 million, with the following breakdown of creditor banks:

Creditor		12/31/2018
BBVA Bancomer	$	144,391
MUFG		57,756
Mizuho		21,992
Norinchukin		21,325
NordLB		43,317
	$	**288,781**

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

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

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

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

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

As of the date of this Report, the Company has complied with these obligations.

Project financing for the Ventika project

On April 8, 2014, Ventika and Ventika II entered into a project finance loans for the construction of the wind projects with five banks: Santander as administrative and collateral agent, the NADB, and Banobras, Bancomext and NAFIN as lenders.

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

Bank	Maturity date	Applicable Interest rate
Santander	15/03/2024	LIBOR + applicable margin
Banobras	15/03/2032	LIBOR + applicable margin
NADB	15/03/2032	Fixed rate + applicable margin
Bancomext	15/03/2032	Fixed rate + applicable margin
NAFIN	15/03/2032	Fixed rate + applicable margin

As of December 31 2018, the outstanding debt is USD$443.8 million with the following breakdown:

Creditor	12/31/2018
Santander	91,166
Banobras	85,768
NADB	133,418
Bancomext	66,709
NAFIN	66,709
	$ 443,770

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

Loan Agreements with unconsolidated affiliates

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrued interest at the rate of LIBOR plus 63 basis points *per annum*, payable on a quarterly basis. On November 30, 2018, the Company fully paid principal and interest accrued on the loan of USD$90 million; in addition, on the same date, the loan of USD$30 million was partially paid, leaving a remaining balance of USD$10.8 million. On December 15, 2018 the Company entered into an amendment to the loan agreement, where the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 points payable on a quarterly basis.

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

In October 2016, with the proceeds from the follow-on equity offering, the Company repaid the outstanding balance of USD$99.5 million.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD $800.0 million with Sempra Global, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 basis points. In October 2016, the company paid the principal and accrued interests with the net resources from the follow-on equity offering.

On September 26, 2016, IEnova entered into a USD$350 million unconsolidated affiliate loan with Semco Holdco, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

On December 27, 2016, IEnova entered into two related party revolving credit facilities for USD$20.0 million with POC and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated and have a twelve-month term with an option to extend up to four years in order to finance working capital needs and general corporate purposes. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 15, 2018. Under its corresponding agreement, each loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated into a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above. Also, on December 15, 2018, the Company signed an amendment with ISLA modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 basis points, and it is payable on a quarterly basis.

On March 17, 2017, the Company entered into an amendment to the SOT Suisse loan agreement, pursuant to which the maturity date was extended for seven years. The applicable interest rate is LIBOR plus 180 basis points and interest is payable on a quarterly basis. As of December 31, 2018, the outstanding balance is USD$38.5 million. As of November 9, 2018, SOT Suisse transferred all rights and obligations of the loan agreement to Sempra Energy International Holdings N.V. becoming the new lender of the Company. Its applicable interest rate is LIBOR plus 137 basis points, and interest is payable on a quarterly basis.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points and interest is payable on a quarterly basis. On March 21, 2018, the Company entered into an amendment to the loan agreement, pursuant to which its maturity date was extended to March 21, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On March 21, 2019, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to November 29, 2019. The loan accrued interest at LIBOR plus 80 basis points that is payable on a quarterly basis.

On April 27, 2017, the Company entered into a loan agreement with POC for the amount of USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points and interest is payable on a quarterly basis. On April 27, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points, and it is payable on a quarterly basis. Moreover, the Company consolidated into a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

As of June 1, 2017, ISLA merged with ISL, which is the entity that remains after the merger, the conditions of the agreements between ISL and IEnova remain the same.

On June 26, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million, in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points and interest is payable on a quarterly basis. On June 26, 2018, the Company entered into an amendment to the loan agreement, pursuant to which its maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On August 23, 2017, the Company entered into a loan agreement with SEH for the amount of USD$132.8 million in order to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate was LIBOR plus 61 basis points and interest is payable on a quarterly basis. On February 6, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to August 22, 2018. On the maturity date the Company fully repaid accrued interest and principal.

On September 29, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points and interest is payable on a quarterly basis. On September 28, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On December 28, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 63 basis points and interest is payable on a quarterly basis. On December 15, 2018 the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On January 16, 2018, the Company entered into a loan agreement with ISL for the amount of USD$70 million in order to finance working capital needs and general corporate purposes; with maturity date on December 15, 2018. The applicable interest rate was LIBOR plus 63 basis points and interest is payable on a quarterly basis. On November 30, 2018 the Company fully repaid accrued interest and principal.

On November 30, 2018, the Company entered into a revolving loan agreement with Sempra Global for the amount up to USD$320 million in order to finance working capital needs and general corporate purposes; with maturity date on August 21, 2020. The applicable interest rate is LIBOR plus 90 basis points and interest is payable on a quarterly basis. As of December 31, 2018, the Company has not made any disbursement on the credit facility.

As of December 31, 2018, 2017 and 2016, and as of the date of this report, the Company was in compliance with its payment obligations under each of the loans described above.

See “Liquidity and Capital Resources – Outstanding Indebtedness.”

d) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the information below together with the Company's audited financial statements as of and for the years ended December 31, 2018, 2017 and 2016, as well as the other financial information included elsewhere in this report. The Company's audited financial statements were prepared in accordance with IFRS as issued by the IASB.

This section contains forward-looking statements that involve risks and uncertainties. The Company's actual results may vary materially from those discussed in such forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this report.

The Company's business Segments

The Company's assets are divided between two business segments:

- Gas segment, which includes natural gas, LNG and LPG transportation through pipelines and storage, natural gas compression, ethane transportation in liquid and gas phases, natural gas distribution business and refined products storage; and

- Power segment, which includes the electricity generation at the natural gas-fired combined cycle power plant, four wind power generation facilities and four photovoltaic solar power plants, of which one wind park and three photovoltaic power generation plants are under construction.

In addition, certain revenues and costs that are not directly attributable to either of the Company's operating segments are reported as corporate revenue and expenses, which are referred to as corporate. These corporate revenues and expenses are primarily administrative and typically represent company-wide functions not allocated to any particular operating business segment.

In February 2016, the Company's board of directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant (TDM). As a result, beginning in 2016, the results of the TDM power plant were reclassified and included in consolidated financial statements under discontinued operations, net of income tax. In June 2018, the board of directors determined to end such sale process, therefore, its financial results were again reclassified in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, and are currently presented as continuing operations in consolidated financial results. In order to provide a meaningful comparison, for purposes of this Report, the Company re-presented its historical consolidated financial statements for the fiscal years ended December 31, 2017 and 2016 to reflect the financial results of the TDM power plant under continuing operations. See Note 12 to Company's audited financial statements, included elsewhere in this Report.

Mexican Economic Environment

Substantially all of the Company's operations are located in Mexico. As a result, the Company's business, financial condition and results of operations depend on and may be affected by the general condition of the Mexican economy, over which the Company has no control.

In 2018, 2017 and 2016, Mexico's GDP grew by 2.0%, 2.0% and 2.3%, respectively.

Acquisition of IEnova Pipelines, formerly Gasoductos de Chihuahua

On September 27, 2016, the Company acquired the remaining 50% equity interest in IEnova Pipelines, formerly Gasoductos de Chihuahua from Pemex TRI for USD$1.14 billion in cash, plus the assumption of existing indebtedness of approximately USD$388 million. This acquisition was approved by the Extraordinary Shareholders' Assembly of September 14, 2015. As a result of the GdC Acquisition, the Company increased its indirect equity interest in Gasoductos de Chihuahua from 50% to 100%. The GdC Acquisition excluded Gasoductos de Chihuahua's subsidiary DEN, which participates in the ownership of the Los Ramones Norte pipeline through the TAG Pipelines Norte joint venture and as a result the Company held a 50% equity interest in DEN until November 2017. The Company entered into a bridge loan of USD$1.15 billion with Sempra Global and/or other unconsolidated affiliates to finance the acquisition of GdC. The Company used the net proceeds from the global equity follow-on to prepay the bridge loan and for other general corporate purposes.

Ventika Acquisition

In December 2016, the Company acquired 100% of equity interests of Ventika. Located in the State of Nuevo León, approximately 56 km from the United States of America border, the facility has 84 turbines and generates up to 252 MW of installed capacity. The Ventika facilities are connected to the CFE transmission line. Ventika's location has one of the strongest wind resources in the country. The transaction value was USD$920 million, including USD$434.7 million in cash and the existing bank debt of USD$485 million. Ventika started commercial operations on April 2016. Substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar denominated energy supply agreement.

DEN Acquisition

In November 2017, the Company completed the acquisition of the remaining 50% of the capital stock of DEN owned by Pemex TRI. The transaction value is USD$547 million, comprised of (i) the price paid for the assignment of DEN's capital stock and the liquidation of certain shareholder loans of USD$258 million, and (ii) the proportional amount of Los Ramones Norte pipeline project financing of USD$289 million. This debt will not be consolidated on the Company's financial statements. As a result of the acquisition, the Company increased its indirect participation in Los Ramones Norte pipeline from 25% to 50%.

Factors Affecting the Company's results of Operations

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

Revenues

Revenue generated by each of the Company's businesses is affected by the following factors:

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

- The Company depends on a limited number of customers with whom the Company has entered into long-term agreements. These agreements are, in general, subject to:

    - Early termination provisions for the failure of a party to perform its obligations under the agreement or in the event of insolvency of any of the parties;

    - Suspension or termination provisions for *force majeure* events beyond the control of the parties; and

    - Substantial limitations of remedies for other failures to perform by any of the parties, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach of the agreements; and

    - If the Company is unable to collect payments from customers under these agreements for any of these reasons or otherwise, the Company's revenue could decrease.

- The Company's LNG terminal's primary revenue stream is generated through long-term firm storage services agreements with its third-party customers, Shell and Gazprom, as well as with the subsidiary IEnova Marketing, which purchases LNG for storage and regasification at the Company's LNG terminal. Each of the customers must pay for its full contracted LNG storage capacity, natural gas send-out capacity and nitrogen facility capacity regardless of whether it actually delivers LNG to the terminal. IEnova Marketing generates revenues by purchasing LNG for storage and regasification in the Company's LNG terminal and selling natural gas that is consumed by the Mexican Federal Electricity Commission at its Presidente Juárez power plant, by the Company's Termoeléctrica

de Mexicali power plant and by other consumers pursuant to natural gas supply contracts covering 100% of its LNG terminal natural gas send-out capacity. IEnova Marketing also generates revenues from payments it receives to the extent its LNG supplier, the Company's U.S. affiliate Sempra Natural Gas, does not deliver LNG to IEnova Marketing pursuant to a long-term LNG supply contract. Relatively high prices for LNG in Asian markets, together with low natural gas prices in Mexico and the United States, have reduced the number of expected shipments of LNG cargoes to IEnova Marketing by Sempra Natural Gas. Accordingly, the Company also depends on revenue derived from these payments. Under a long-term supply contract with Sempra Natural Gas, the payments made by Sempra Natural Gas to IEnova Marketing have been sufficient to compensate IEnova Marketing for the storage and transportation costs incurred by IEnova Marketing resulting from Sempra Natural Gas' failure to deliver required LNG cargoes. See "Related Party Transactions and Conflicts of Interest".

- The price of natural gas is subject to market conditions beyond the Company's control. The Mexican Energy Regulatory Commission requires natural gas distributors to pass the cost of natural gas through to their customers without obtaining a margin from the sale of natural gas. As a result, the cost of natural gas effectively offsets the amount of revenue from natural gas sales. However, the profit margin obtained by natural gas distributors, including the natural gas business, is derived from natural gas distribution fees and other related services. Accordingly, total revenue for the natural gas distribution business is impacted by market swings in natural gas prices and the Company's customers' preference for natural gas relative to other energy sources, such as LPG, and the profit derived from distribution fees and other related services can decrease in response to decreases in overall demand for natural gas.

- Customer demand in gas and power segments is also impacted by seasonality in the United States market, and with respect to natural gas distribution, general economic conditions in Mexico. See "– Mexican Economic Environment." Lower customer demand due to seasonality or unfavorable economic conditions could lower the Company's revenue and profits.

- The markets and pipelines to which the Company delivers natural gas and LPG typically establish minimum quality specifications for the delivered natural gas and LPG. These specifications can vary by pipeline or markets. If the quality of natural gas or LPG that the Company delivers fails to meet the applicable product quality specifications, the pipeline or market may refuse to accept all or a part of the delivery or may invoice the Company for the costs to handle the non-conforming products. In those circumstances, the Company may be required to find alternative markets for the delivery or stop accepting non-conforming product into the Company's pipelines, which could reduce the Company's through-put volumes or revenue.

- The Company may use financial derivative instruments in the ordinary course of the Company's business. The Company uses these instruments for hedging purposes. However, they are not reflected as hedges in the Company's financial statements because they do not qualify for hedge accounting due to certain technical requirements. The Company does not hedge the entire exposure to market price volatility of its assets or contract positions, and the hedging will vary over time. Unanticipated changes in market prices for energy-related commodities can result from multiple factors, including weather conditions, seasonality, changes in supply and demand, transmission or transportation constraints or inefficiencies, availability of competitively priced alternative energy sources and commodity production levels. If the Company does not hedge its exposure to market price volatility or the Company's contract positions correctly, the Company could incur losses.

- The ECOGAS natural gas distribution business benefited from a 12-year period of exclusivity with respect to each of its three distribution zones. The last of these exclusivity periods expired in 2011. Accordingly, the Company could face competition from other distributors of natural gas in all of the distribution zones.

Cost of Natural Gas

The cost of natural gas primarily consists of the cost of natural gas, costs of services, minor materials used in the power generation process, labor costs and transportation costs. The principal factors that affect these costs include the following:

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

- The Company's LNG business is also impacted by worldwide LNG market prices. High LNG prices in markets outside the market in which the Company's LNG terminal operates have resulted and could continue to result in lower than expected deliveries of LNG cargoes to the Company's LNG terminal, which could increase the Company's costs if it does not receive expected LNG cargo deliveries from third parties under existing supply agreements and are instead required to obtain LNG in the open market at prevailing prices. Any inability to obtain expected LNG cargoes could also impact the Company's ability to maintain the minimum level of LNG required to keep the Company's LNG terminal in operation. LNG market prices also affect the Company's LNG marketing operations, through which the Company must purchase natural gas in the international market to meet its contractual obligations to deliver natural gas to the Company's customers, which could have an effect on its profit.

- Currently, the ECOGAS natural gas distribution business relies on two affiliate companies, IEnova Marketing and SoCalGas, for the supply of natural gas that the Company distributes to its customers. If any of these key suppliers fails to perform and the Company is unable to obtain supplies of natural gas from alternate sources, the Company could lose customers and sales volume, and in some cases, it could be exposed to commodity price risk and volatility.

Effects of Currency Exchange Rates on Income Tax Expense

Exchange rate fluctuations and Mexican inflation can result in significant fluctuations in the Company's income tax expense. The Company has U.S. Dollar-denominated receivables and payables that are subject to Mexican currency exchange rate movements for Mexican income tax purposes. The Company also has deferred income tax assets and liabilities that are denominated in Mexican pesos, which are translated to U.S. Dollars for financial reporting purposes. In addition, the Company adjusts its monetary assets and liabilities for Mexican inflation for purposes of determining the Mexican income tax expense. See Note 24.7 to the Company's audited financial statements, included elsewhere in this report.

Under IFRS, the Company is required to remeasure property, plant and equipment at each reporting period using the period-end Mexican peso exchange rate and change in inflation rate for the Company's U.S. Dollar functional currency subsidiaries. The impact from this period-end conversion for property, plant and equipment can result in significant fluctuations in the Company's income tax expense and deferred income tax balances. See Note 25.1 to the Company's audited financial statements, included elsewhere in this report.

Decree of fiscal incentives

In December 31, 2018, the Decree of fiscal stimulus for the Northern Border Region (The Decree) was published in the Official Gazette of the Federation, which will be effective as of January 1, 2019 and will be valid for two years, 2019 and 2020.

The purpose of the Decree is to strengthen the economy in the country's northern border, stimulate and encourage investment, promote productivity and contribute to the creation of employment.

This Decree establishes fiscal incentives in Income Tax (ISR) and Value Added Tax (VAT), applicable to those who have their fiscal domicile, branches or establishments in the northern border region.

The fiscal incentives consist of the following:

1. A tax credit for the equivalent of one third of Income Tax (ISR) for the year or provisional payments related to income obtained in the region, except those derived from intangible assets and digital commerce.

2. A 50% reduction in the Value Added Tax (VAT) for the sale of goods, provision of services and temporary use or enjoyment of goods delivered materially or services provided in the region, except sale of real estate and intangibles and the supply of digital content.

Taxpayers who comply with all the parameters and requirements established in the Decree must present the corresponding notices of VAT and ISR and request their registration in the "Register of Beneficiaries of the stimulus for the Northern Border Region" (*"Padrón de Beneficiarios del estímulo para la Región Fronteriza Norte*")

The fiscal incentives referred to in the Decree must not be considered as cumulative income and it is exempt from submitting the notice established in the Fiscal Code of the Federation (Accreditation of Fiscal Incentives).

Market Risks Associated with the Merchant Power Plant

The results related to the Termoeléctrica de Mexicali power plant could be affected by market conditions, as it is currently operates offering directly in the wholesale energy market in California. Termoeléctrica de Mexicali currently sells its capacity in short-term and medium-term markets and its, power mainly in short-term market, based on market conditions at the time of sale, so the Company cannot predict with certainty:

- the amount or timing of revenue it may receive from power sales;
- the operating income, that is, differential between the cost of operations and power sales revenue;
- the effect of competition from other suppliers of power;
- regulatory actions or changes that may affect market behavior;
- the demand for power in markets served by Termoeléctrica de Mexicali relative to available supply; or
- the availability of transmission to accommodate the sale of power.

Several of the wholesale markets supplied by merchant power plants have experienced significant price declines due to excess supply or decrease in net demand. Termoeléctrica de Mexicali's results could be adversely affected if it is unable to sufficiently sell its output at prices that would require the Company can obtain a reasonable profit. The Company manages risks at Termoeléctrica de Mexicali by optimizing among a mix of forward on-peak energy sales and capacity, daily and hourly spot market sales of energy and ancillary services, and longer-term structured transactions. The Company uses these measures to improve the certainty of the profit and/or reduce the risk to the decrease of income or losses; however, it cannot provide assurance regarding the implementation of these risk management measures or how successful such implementation may be, and entering into long-term contracts could be difficult or unattractive.

i) Results of Operations for the Years Ended December 31, 2018, 2017 and 2016

The following table sets forth the Company's profit for the years ended December 31, 2018, 2017 and 2016, and the change from the prior period. Segment profit is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change		Change	
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
Revenues	1,368,555	1,222,905	767,089	145,650	11.9 %	455,816	59.4 %
Cost of revenues	(385,791)	(331,846)	(270,885)	(53,945)	16.3 %	(60,961)	22.5 %
Operating, administrative and other expenses	(214,519)	(202,982)	(122,270)	(11,537)	5.7 %	(80,712)	66.0 %
Depreciation and amortization	(137,157)	(119,020)	(66,606)	(18,137)	15.2 %	(52,414)	78.7 %
Impairment of Termoeléctrica de Mexicali	—	(63,804)	(136,880)	63,804	n.s.	73,076	(53.4)%
Interest income	27,449	22,808	6,294	4,641	20.3 %	16,514	262.4 %
Finance cost	(122,879)	(73,501)	(21,092)	(49,378)	67.2 %	(52,409)	248.5 %
Other gains (losses), net	8	(40,900)	773	40,908	n.s.	(41,673)	n.s.
Remeasurement of equity method investment	—	—	673,071	—	n.s.	(673,071)	n.s.
Profit before income taxes and share of profits of joint ventures	535,666	413,660	829,494	122,006	29.5 %	(415,834)	(50.1)%
Income tax expense	(143,064)	(104,163)	(117,345)	(38,901)	37.3 %	13,182	(11.2)%
Share of profits of joint ventures, net of income taxes	37,984	44,677	42,841	(6,693)	(15.0)%	1,836	4.3 %
Profit for the year	430,586	354,174	754,990	76,412	21.6 %	(400,816)	(53.1)%

Profit for the year

The following table sets forth the Company's profit by reportable segment for the years ended December 31, 2018, 2017 and 2016, and the change from the prior period. Segment profit is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
Profit for the year							
Gas segment	445,259	463,483	912,370	(18,224)	(3.9)%	(448,887)	(49.2)%
Power segment	65,357	(34,316)	(104,900)	99,673	(290.5)%	70,584	(67.3)%
Corporate	(80,030)	(74,993)	(52,480)	(5,037)	6.7 %	(22,513)	42.9 %
Total profit for the year	430,586	354,174	754,990	76,412	21.6 %	(400,816)	(53.1)%

Gas Segment

In 2018, gas segment profit decreased USD$18.2 million, or 3.9%, compared to 2017, mainly due to higher finance cost and higher income tax expense.

In 2017, gas segment profit decreased USD$448.9 million, or 49.2%, compared to 2016, mainly due to the non-cash gain of USD$673.1 million related to the remeasurement to fair value of the previously held 50 percent interest in Gasoductos de Chihuahua in 2016. This effect was partially offset by USD$121.4 million for IEnova Pipelines acquisition, formerly Gasoductos de Chihuahua, lower income tax expense by USD$66.0 million and USD$40.3 million from the start of operations of four pipelines.

Power Segment

In 2018, excluding the impairment charge, power segment profit increased by USD$35.9 million compared to 2017, due to higher operational results at Termoeléctrica de Mexicali power plant and its major scheduled maintenance in 2017.

In 2017, power segment loss decreased by USD$70.6 million compared to 2016, due to lower impairment charge after tax in 2017 and Ventika wind generation park operations.

Corporate

In 2018, corporate loss increased by USD$5.0 million compared to 2017, mainly due to higher finance cost, offset by effects of exchange rate.

In 2017, corporate loss increased by USD$22.5 million compared to 2016, mainly due to the effect of exchange rate, primarily related to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline (which is partially offset in the share of profits of joint ventures), and higher interest expense partially offset by interest income related to the shareholder's loan to fund the South Texas – Tuxpan pipeline and lower income tax expense.

Revenues

The following table sets forth the Company's revenues by reportable segment for the years ended December 31, 2018, 2017 and 2016, and the change from the prior period. Segment revenues are presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
Revenues							
Gas segment	1,058,535	991,690	650,945	66,845	6.7 %	340,745	52.3 %
Power segment	308,244	229,356	113,507	78,888	34.4 %	115,849	102.1 %
Corporate	1,776	1,859	2,637	(83)	(4.5)%	(778)	(29.5)%
Total revenues	1,368,555	1,222,905	767,089	145,650	11.9 %	455,816	59.4 %

Gas Segment

In 2018, gas segment revenues increased by USD$66.8 million —equivalent to 6.7%— compared to 2017, mainly due to USD$31.9 million from higher volume sold of natural gas, USD$11.5 million from the acquisition of Ductos y Energéticos del Norte, USD$6.9 million one-time natural gas distribution rates true-up from prior years at

ECOGAS Mexicali, USD$ 6.3 million from higher natural gas distribution rates and USD$4.6 million from higher transportation and storage rates.

In 2017, gas segment revenues increased by USD$340.7 million —equivalent to 52.3%— compared to 2016, mainly due to USD$220.8 million from the acquisition of the remaining 50% of IEnova Pipelines and USD$66.2 million from the start of operations of the pipelines Sonora, Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme Lateral, USD$49.4 million of higher price of natural gas and higher volume sold and USD $4.9 million due to higher natural gas distribution rates at ECOGAS.

Power Segment

In 2018, power segment revenues increased by USD$78.9 million —equivalent to 34.4%— compared to 2017, mainly due to USD$70.5 million from higher volumes and prices at Termoeléctrica de Mexicali power plant, and USD $9.0 million from higher power prices at Ventika.

In 2017, power segment revenues increased by USD$115.8 million —equivalent to 102.1%— compared to 2016, as a result of the acquisition of the Ventika wind power generation facility in December 2016.

Corporate

In 2018, revenues generated in the corporate segment were in line compared with the same period 2017.

In 2017, corporate revenues decreased by USD$0.8 million –equivalent to 29.5%– compared to 2016, mainly due to project development expenses billing in 2016.

Cost of revenues

The following table sets forth the Company's cost of revenues by reportable segment for the years ended December 31, 2018, 2017 and 2016, and the change from the prior period. Cost of revenues is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
Cost of revenues							
Gas segment	259,860	230,331	183,064	29,529	12.8%	47,267	25.8%
Power segment	125,931	101,515	87,821	24,416	24.1%	13,694	15.6%
Total cost of revenues	385,791	331,846	270,885	53,945	16.3%	60,961	22.5%

Gas Segment

In 2018, gas segment cost of revenues increased by USD$29.6 million —equivalent to 12.8%— compared to 2017, mainly due to higher volumes sold of natural gas.

In 2017, gas segment cost of revenues increased by USD$47.3 million —equivalent to 25.8%— compared to 2016, primarily due to higher cost of natural gas and higher volume sold.

Power Segment

In 2018, power segment cost of revenues increased by USD$24.4 million ―equivalent to 24.1%― compared to 2017, mainly due to higher natural gas volume at the Termoeléctrica de Mexicali power plant.

In 2017, power segment cost of revenues increased by USD$13.7 million ―equivalent to 15.6%― compared to 2016, mainly due to mainly higher natural gas prices and volume at the Termoeléctrica de Mexicali power plant and the operations of the Ventika wind power generation facilities.

Operating, administrative and other expenses

In 2018, operating, administrative and other expenses were USD$214.5 million, compared to USD$203.0 million in 2017. The increase of USD$11.5 million was mainly due to the 2017 start of operations of new pipelines, other corporate general expenses, and maintenance expenses at Termoeléctrica de Mexicali power plant, partially offset by its scheduled major maintenance in 2017.

In 2017, operating, administrative and other expenses were USD$203.0 million, compared to USD$122.3 million in 2016. The increase was mainly due to the acquisition of the Ventika wind power generation facility and the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua, and the start of operations of four pipelines: Sonora, Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme Lateral, other corporate expenses and scheduled major maintenance expense at Termoeléctrica de Mexicali power plant in 2017.

Depreciation and amortization

In 2018, depreciation and amortization were USD$137.2 million, compared to USD$119.0 million for 2017. The increase of USD$18.2 million was mainly due to the 2017 start of operations of new pipelines and the resumption of Termoeléctrica de Mexicali power plant depreciation.

In 2017, depreciation and amortization were USD$119.0 million, compared to USD$66.6 million for 2016. The increase of USD$52.4 million was mainly due to the acquisitions of Ventika and the remaining 50 percent of Gasoductos de Chihuahua, and the start of operations of four pipelines: Sonora Guaymas – El Oro segment, Ojinaga – El Encino, San Isidro – Samalayuca and Empalme lateral.

Impairment of Termoeléctrica de Mexicali power plant

The asset value indicated by the Termoeléctrica de Mexicali power plant sale process was determined to be lower than its carrying value, resulting in a non-cash after-tax impairment charge of US$63.8 million and US$136.9 million in 2017 and 2016, respectively.

Finance (costs) income

In 2018, financing cost, net was USD$95.4 million, compared to USD$50.7 million for 2017. The increase of USD$44.7 million was mainly due to a higher corporate debt balance and higher interest rates, partially offset by higher interest income related to the shareholder's loan granted to South Texas – Tuxpan pipeline.

In 2017, financing cost, net was USD$50.7 million, compared to USD$14.8 million for 2016. The increase of USD$35.9 million was mainly due to higher interest expense from debt related to Ventika, a higher corporate debt balance and lower interest capitalization related to projects under construction, partially offset by interest income related to the shareholder's loan granted to South Texas – Tuxpan pipeline (our joint venture with TransCanada).

Other (losses) gains

In 2018, other (losses) gains were USD$0.0 million, compared to other losses of USD$40.9 million in 2017. The variation of USD$40.9 million was related to exchange rate effects, mainly due to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline, which is offset in Share of Profits of Joint Ventures.

In 2017, other losses were USD$40.9 million, compared to other gains of USD$0.8 million in 2016. The variation of USD$41.7 million was related to exchange rate effects, mainly due to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline, which is partially offset in Share of Profits of Joint Ventures.

Income taxes

In 2018, income tax expense were USD$143.1 million compared to USD$104.2 million in 2017. The increase of USD$38.9 million is primarily due to higher profit before taxes and the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant and equipment at our U.S. Dollar functional currency, which we are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate, partially offset by the effect of exchange rate and inflation on monetary assets and liabilities.

In 2017, income tax expense was USD$104.2 million compared with USD$117.3 million in 2016. The decrease of USD$13.1 million is primarily due to the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant, and equipment at our U.S. Dollar company functional currency, which we are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate and inflation. This decrease is partially offset by the currency exchange rate and inflation movements at period end on monetary assets and liabilities.

Share of profits of joint ventures, net of income taxes

In 2018, the Company's share of profits of joint ventures, net of income tax, were USD$38.0 million, compared to USD$44.7 million in 2017. The decrease of USD$6.7 million is mainly due to the loss in the South Texas – Tuxpan pipeline from foreign exchange rate effects primarily related to a peso-denominated shareholder's loan, partially offset by the increased ownership of Los Ramones Norte pipeline. The foreign exchange rate effects are offset in Other (Losses) Gains, net.

In 2017, the Company's share of profits of joint ventures, net of income tax, were USD$44.7 million, compared to USD$42.8 million in 2016. The increase of USD$1.9 million is mainly due to profit in the South Texas – Tuxpan pipeline (our joint venture with TransCanada), from foreign exchange rate effects related to a peso-denominated shareholder's loan, the start of operations of Los Ramones Norte pipeline in February 2016, and lower income tax expense. This increase is partially offset by the impact of the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and higher income tax in the South Texas – Tuxpan pipeline. These foreign exchange rate effects are offset in Other (Losses) Gains, net.

Adjusted EBITDA

The following table sets forth the Company's Adjusted EBITDA by reportable segment for the years ended December 31, 2018, 2017 and 2016, and the change from the prior period. Segment Adjusted EBITDA is presented after the elimination of intercompany transactions.

(in thousands of U.S. Dollars, except the percentages)	Year ended December 31,			Change			
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
Adjusted EBITDA							
Gas segment	716,007	663,023	481,293	52,984	8.0 %	181,730	37.8%
Power segment	160,790	103,673	23,425	57,117	55.1 %	80,248	342.6%
Corporate	(431)	(8,056)	(698)	7,625	(94.6)%	(7,358)	n.s.
Total Adjusted EBITDA	876,366	758,640	504,020	117,726	15.5 %	254,620	50.5%

For the Company's definition of EBITDA and Adjusted EBITDA, an explanation of why the Company presents it and a discussion of its limitations, see "Selected Financial Information". A reconciliation from Profit for the period to EBITA and Adjusted EBITDA is shown below:

(in thousands of U.S. Dollars)	Year ended December 31,		
	2018	2017	2016
		(unaudited)	
EBITDA reconciliation			
Profit for the period	430,586	354,174	754,990
Depreciation and amortization	137,157	119,020	66,606
Impairment of Termoeléctrica de Mexicali	—	63,804	136,880
Financing cost, net	95,430	50,693	14,798
Other losses (gains), net	(8)	40,900	(773)
Remeasurement of equity method investment	—	—	(673,071)
Income tax expense	143,064	104,163	117,345
Share of (profits) of joint ventures, net of income tax	(37,984)	(44,677)	(42,841)
(1) EBITDA	**768,245**	**688,077**	**373,934**
JV EBITDA Adjustment reconciliation			
Profit for the period	37,984	44,677	42,841
Depreciation and amortization	6,350	6,276	13,907
Financing cost, net	34,576	30,087	32,194
Other (gains) losses, net	(3,238)	(16,888)	4,433
Income tax expense	32,449	6,411	36,709
(2) JV EBITDA Adjustment	**108,121**	**70,563**	**130,084**
(1+2) Adjusted EBITDA	**876,366**	**758,640**	**504,018**

ii) Financial Condition, Liquidity and Capital Resources

Overview

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

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

Cash flows from operating activities consist primarily of inflows from revenue and outflows for costs of revenues and increases in working capital needed to grow the Company's business. Cash flows used in investing activities represent investments in property, plant and equipment required for the Company's growth, in expansion and maintenance, and in acquisitions. Cash flows from financing activities are primarily related to changes in loans from unconsolidated affiliates to grow the Company's business, repayments of indebtedness with cash from operations, refinancing transactions and payments of dividends.

The Company expects that its cash flows from operations, as well as its capacity for future borrowings, will be sufficient to finance the liquidity requirements for the foreseeable future. The Company is also subject to certain capital requirements imposed by governmental agencies on the Company's regulated pipelines and natural gas distribution businesses.

Liquidity

The Company is a holding company. As a result, the Company's ability to meet its obligations depends primarily on the earnings and cash flows of its subsidiaries and investments in joint ventures, and the ability of those subsidiaries or joint ventures to pay dividends or distribute other amounts to the Company.

Capital Resources and Use of Proceeds

	Year ended December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**
Net cash provided by operating activities	624,986	586,234	240,298
Net cash (used in) investing activities	(627,115)	(970,457)	(1,895,725)
Net cash (used in) generated by financing activities	(33,975)	406,584	1,605,461
Cash and cash equivalents at the end of the year	51,681	37,208	24,918

Operating Activities

In 2018, net cash provided by operating activities were USD$625.0 million, compared to USD$586.2 million in 2017, mainly due to higher operational results and lower income tax paid, partially offset by changes in working capital.

In 2017, net cash provided by operating activities were USD$586.2 million, compared to USD$240.7 million in 2016, mainly due to a higher operations base as a result of the acquisitions of Gasoductos de Chihuahua and Ventika, and the start of operations of four pipelines, partially offset by changes in working capital.

Investing Activities

The Company maintains financial resources sufficient to meet its financial commitments related to capital expenditures and other investing activities and those of its subsidiaries.

In 2018, net cash used in investing activities were USD$627.1 million, mainly due to capital expenditures of USD $456.4 million primarily related to the new solar and liquid terminal projects and the funding of USD$174.9 million in the South Texas – Tuxpan pipeline.

In 2017, net cash used in investing activities were USD$970.5 million, mainly due to USD$578.1 million to fund the South Texas – Tuxpan pipeline and capital expenditures of USD$253.0 million mainly related to our Ojinaga – El Encino pipeline, Sonora pipeline Guaymas – El Oro segment, San Isidro – Samalayuca pipeline, Empalme lateral pipeline and Veracruz marine terminal project, and USD$147.6 million for the acquisition of an additional 25 percent of Los Ramones Norte pipeline, net of cash available at the closing date.

The USD$258.5 million price paid for the assignment of Ductos y Energéticos del Norte's capital stock and the liquidation of certain shareholder loans is comprised of USD$164.8 million cash and the liquidation of certain shareholder loans of USD$95.8 million as shown in the cash flow from financing activities, minus value added tax of USD$2.1 million. The cash available at the closing date was USD$17.2 million.

In 2016, net cash used in investment activities were USD$1,895.7 million, due to the acquisition of Gasoductos de Chihuahua for USD$1,077.6 million, net of cash available at the date of acquisition; the acquisition of Ventika for USD $434.7 million, net of cash available at closing date, including shareholders' debt purchase by USD$125.0 million; capital expenditures of USD$315.8 million for the Ojinaga – El Encino pipeline, Sonora pipeline and San Isidro – Samalayuca pipeline projects, and the investment of USD$100.5 million in IMG; partially offset by the decrease in short-term investments of USD$20.0 million, and repayment of loans from unconsolidated affiliates of USD$8.3 million.

Financing Activities

In 2018, net cash used in financing activities were USD$34.0 million, mainly due to USD$242.0 million in net repayments of loans from unconsolidated affiliates, a dividend payment of USD$210.0 million, the five-year CEBURES payment at maturity of USD$102.1 million and interest paid of USD$85.0 million, partially offset by USD$612.4 million in net borrowings against credit facilities.

In 2017, net cash provided by financing activities were USD$406.6 million, due to USD$807.4 million of international senior note offerings, net of expenses, USD$331.2 million in net borrowings from unconsolidated affiliates, USD$360.5 million net bank loan payments, a dividend payment of USD$200.0 million, payment to Pemex Transformación Industrial loan of USD$95.8 million as part of the acquisition of an additional 25 percent of Los Ramones Norte pipeline, and interest paid of USD$75.6 million.

In 2016, net cash provided by financing activities were USD$1,605.5 million, mainly due to USD$1,567.7 million of proceeds from the common stock follow-on offering, net of expenses, USD$1,240.0 million in loans from unconsolidated affiliates and USD$805.0 million from borrowings against credit facilities, partially offset by USD$1,369.6 million repayment of unconsolidated affiliate loans, USD$459.5 million repayment of bank loans, a dividend payment of USD$140.0 million, and interest paid of USD$35.8 million.

Purchase of Company's own shares

From time to time, the Company acquires its own shares using the resources assigned to it by its shareholders. At the ordinary general meeting of shareholders of the Company held on June 14, 2018, the constitution of fund to purchase own shares was approved, for a maximum amount of up to USD$250 million considering the Company's profits as of December 31 of 2018.

The following table contains information about the shares acquired by the Company in 2018 and 2019, prior to the date of publication of this report, through the program established for that purposes.

Period	No. of shares purchased	Average price paid per Share (Mexican pesos)	Amount available for the purchase of own shares under the program (Mexican pesos)	Amount available for the purchase of own shares under the program (U.S. Dollars)
November 2018	500,000	69.79	5,121,578,000	248,300,228
December 2018	1,500,000	72.79	5,012,387,750	242,820,383
February 2019	1,600,000	71.08	4,898,653,570	236,924,745
	3,600,000			

Summary of Relevant Financial Position Data

(in thousands of U.S. Dollars)	As of December 31, 2018	2017	2016
Finance lease receivable, current	9,809	8,126	7,155
Finance lease receivable, non-current	932,375	942,184	950,311
Property, plant and equipment	4,086,914	3,729,456	3,614,085
Intangible assets	190,772	190,199	154,144
Goodwill[(1)]	1,638,091	1,638,091	1,638,091
Total assets	**8,768,597**	**8,163,859**	**7,126,948**
Current liabilities	1,445,631	1,053,917	971,674
Non-current liabilities	2,569,216	2,593,355	1,804,963
Total liabilities	**4,014,847**	**3,647,272**	**2,776,637**
Total liabilities and equity	**4,753,750**	**4,516,587**	**4,350,311**

[(1)] During the last quarter of 2017, the Company received additional information on the Ventika deferred tax amount after the acquisition date; as a result, the Company decreased goodwill by USD$13.7 million. See note 13 to the audited financial statements of the Company, included in this Report.

In 2018, property, plant and equipment increased mainly due to the capital expenditures related to solar and liquid projects.

In 2018, total liabilities increased mainly due net borrowings against credit facilities.

In 2017, the liabilities increased by USD$850 million mainly due to the Senior Notes offering.

In 2016, the main changes in the consolidated statements of financial position relate primarily to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua, the acquisition of the 100% equity interest in the Ventika wind power generation facilities and the common stock follow-on offering.

In 2016, the finance lease receivables increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua.

In 2016, property, plant and equipment increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities and the investment in Gasoducto Ojinaga – El Encino, el Gasoducto Sonora y el Gasoducto San Isidro – Samalayuca.

In 2016, intangible assets increased due to the renewable transmission and consumption rights of Ventika, associated with projects approved under the preexisting self-supply program of renewable energy.

In 2016, goodwill increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities.

In 2016, long-term debt and its corresponding current portion increased due to the acquisition of the remaining 50% equity interest of Gasoductos de Chihuahua and the acquisition of the 100% equity interest in Ventika wind power generation facilities. In both cases, it refers to existing indebtedness before the acquisition.

Financial Ratios

	As of December 31,		
	2018	**2017**	**2016**
Current assets/current liabilities	0.3 times	0.5 times	0.5 times
Total liabilities/total assets	46%	45%	39%
Total liabilities/stockholder's equity	84%	81%	64%
Days of sales in accounts receivable	47 days	29 days	32 days*

* Proforma

Outstanding Debt

Historical

	As of December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**
Short-term debt	871,432	199,395	493,571
Short-term debt with unconsolidated affiliates	267,778	510,009	248,580
Long-term debt with unconsolidated affiliates	75,161	73,510	3,080
Short-term debt related to CEBURES	—	102,000	—
Long-term debt related to CEBURES	306,000	306,000	408,000
Long-term bank debt	1,512,875	1,572,551	788,159
Senior Notes	840,000	840,000	—

On February 14, 2013, the Company issued two series of Notes in an aggregate principal amount of Ps.5.2 billion (USD$408 million, based on the exchange rate of Ps.$12.7364 to USD$1.00 published by the Banco de México on February 12, 2013), for sale in connection with a public offering in Mexico for a series of 10-year, Notes with a fixed interest rate of 6.30% in the principal amount of Ps.$3.9 billion, and a series of 5-year, floating-rate Notes in the principal amount of Ps. $1.3 billion which accrue interest at the TIIE rate plus 30 basis points. The Company used a portion of the proceeds from the sale of both series of Notes, or approximately USD$408 million, to repay approximately USD$356 million in outstanding indebtedness with affiliates and to finance the purchase of property, plant and equipment. On February 8, 2018, the Company paid Ps.$1.3 billion related to the second issuance of CEBURES.

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrues interest at the rate of LIBOR plus 63 basis points *per annum*, payable on a quarterly basis. On November 30, 2018, the Company fully paid principal and interest accrued on the loan of USD$90 million; in addition on the same date, the loan of USD$30 million was partially paid, leaving a remaining balance of USD$10.8 million. On December 15, 2018, the Company entered into an amendment to the loan agreement, where the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 points payable on a quarterly basis.

On August 21, 2015 the Company entered into a five-year term, USD$400 million revolving credit facility loan agreement with SMBC, Santander, MUFG and Bank of Nova Scotia, in order to finance working capital needs, investments and general corporate purposes. Under its corresponding agreement, each loan accrues interest at the rate of LIBOR plus 90 basis points *per annum*, payable on a quarterly basis. On December 2015, the Company entered into an amendment to the

revolving credit facility loan agreement to increase the available amount to USD$600 million. In November 2016, the Company entered into an amendment to the revolving credit facility loan agreement to increase the available amount from USD$600 million to USD$1,170 million. As of December 31, 2018, the available, or unused amount of the revolving credit facility loan is USD$362 million.

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

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan of USD$800.0 million with Sempra Global, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 basis points. In October 2016, the company paid the principal and accrued interest with the net resources from the follow-on equity offering.

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan of USD$350 million with Semco Holdco, in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

On December 27, 2016, IEnova entered into two related party revolving credit facilities of USD$20.0 million with POC and USD$70.0 million with ISLA. The credit facilities are U.S. Dollar denominated, have a twelve-month term, with an option to extend up to four years in order to finance working capital needs and general corporate purposes. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 15, 2018. Under its corresponding agreement, each loan accrues interest at LIBOR plus 63 basis points, and interest is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with PPC, for a total amount of USD$102 million; with the characteristics described above. Also, on December 15, 2018, the Company signed an amendment with ISLA modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 basis points payable on a quarterly basis.

On March 17, 2017, the Company entered into an amendment to the SOT Suisse loan agreement, pursuant to which the maturity date was extended for seven years. The applicable interest rate is LIBOR plus 180 basis points, payable on a quarterly basis. As of December 31, 2018, the outstanding balance is USD$38.5 million. As of November 9, 2018, SOT Suisse transferred all rights and obligations of the loan agreement to Sempra Energy International Holdings N.V. becoming the new lender of the Company. Its applicable interest rate is LIBOR plus 137 basis points payable on a quarterly basis.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points, and interest is payable on a quarterly basis. On March 21, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to March 21, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On March 21, 2019, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to November 29, 2019. The loan accrued interest at LIBOR plus 80 basis points that is payable on a quarterly basis.

On April 27, 2017, the Company entered into a loan agreement with POC for USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points, and interest is payable on a quarterly basis. On April 27, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On December 15, 20108, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

As of June 1, 2017, ISLA merged with ISL, which is the entity that remained after the merger. The conditions of the agreements between ISL and IEnova remain the same.

On June 26, 2017, the Company entered into a loan agreement with POC for the amount of USD$21million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points, and interest is payable on a quarterly basis. On June 26, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On August 23, 2017, the Company entered into a loan agreement with SEH for the amount of USD$132.8 million in order to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate is LIBOR plus 61 basis points, and interest is payable on a quarterly basis. On February 6, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to August 22, 2018. On the maturity date the Company fully repaid accrued interest and principal.

On September 29, 2017, the Company entered into a loan agreement with POC for USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points, and interest is payable on a quarterly basis. On September 28, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. On December 15, 2018 the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On December 14, 2017, the Company completed the issuance of USD$840 million of International Senior Notes, comprised of USD$300 million aggregate principal amount of the Company's 3.750% Senior Notes due 2028 and USD$540 million aggregate principal amount of the Company's 4.875% Senior Notes due 2048.

On December 28, 2017, the Company entered into a loan agreement with POC for the amount of USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 63 basis points, and interest is payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with POC modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis. Moreover, the Company consolidated on a single loan agreement all debt with POC, for a total amount of USD$102 million; with the characteristics described above.

On January 16, 2018, the Company entered into a loan agreement with ISL for the amount of USD$70 million in order to finance working capital needs and general corporate purposes; with maturity date on December 15, 2018. The applicable interest rate is LIBOR plus 63 basis points and interest is payable on a quarterly basis. On November 30, 2018 the Company fully repaid accrued interest and principal.

On November 30, 2018, the Company entered into a revolving loan agreement with Sempra Global for the amount up to USD$ 320 million in order to finance working capital needs and general corporate purposes; with maturity date on August 21, 2020. The applicable interest rate is LIBOR plus 90 basis points and interest is payable on a quarterly basis. As of December 31, 2018, the Company has not made any disbursement on the credit facility.

As of December 31, 2018, all of the Company’s long-term debt to unconsolidated affiliates was owed to its indirect controlling shareholder or its subsidiaries. The Company’s affiliate loans as of December 31, 2018, had maturities ranging from March 2019 through March 2024 and accrued interest at average annual rates ranging from 3.3% to 3.8%. See Note 6.1 to the Company’s audited financial statements, included in this Report.

Tax Situation

As of December 31, 2018, the Company and its subsidiaries do not have significant tax debts.

Capital Expenditures

The Company expects to continue making investments in the Mexican energy infrastructure sector that generate stable cash flows and expand into related businesses to increase the Company's revenue and profitability. The Company intends to achieve this goal by pursuing a disciplined, targeted growth strategy, including:

- Investing in long-term essential energy infrastructure assets in Mexico;
- Continuing to expand the Company's network of energy assets in Mexico;
- Continuing to focus on assets that produce stable cash flows; and
- Maximizing the efficiency and profitability of the Company's current energy assets.

For the years ended, December 31, 2018, 2017 and 2016 the Company made capital expenditures of USD$392.1 million, USD$224.8 million and USD$315.8 million, respectively. These capital expenditures included mainly expenditures related to acquisitions of property, plant and equipment for the development of the solar, liquids terminals and pipeline projects.

The following table contains a breakdown of the Company's expected capital expenditures by business segment in the following three years, including capital expenditures in joint ventures:

Investment per segment (in millions of U.S. Dollars)	**2019**	**2020**	**2021**
Gas *	595	409	20
Electricity	160	—	—
Joint Ventures	70	—	—
Total Investment	**$ 825**	**$ 409**	**$ 20**

* Includes the investment in refined products storage facilities.

Contractual Arrangements

Historical

The following table contains a summary of the Company's contractual obligations as of December 31, 2018, taking into account the undiscounted cash flows associated with the Company's financial liabilities based on the earliest date on which the Company will be required to pay them and including the cash flows associated with payments of both principal and interest:

(in thousands of U.S. Dollars)	**Less than 1 year**	**1-3 years**	**3-5 years**	**5+ years**	**Total**
Due to unconsolidated affiliates	276,312	41,189	2,411	39,666	**359,578**
CEBURES	12,483	37,449	199,286	—	**249,218**
Bank loans	911,051	116,296	480,649	447,892	**1,955,888**
International debt Senior Notes	37,575	112,725	187,875	1,366,500	**1,704,675**
Derivative financial instruments	176	(1,920)	(159,750)	(2,909)	**(164,403)**
Total	1,237,597	305,739	710,471	1,851,149	**4,104,956**

In the ordinary course of business, the Company also enters into long-term supply arrangements with affiliates that are not reflected in the table above. In addition, in connection with the Company's transactions with derivative financial instruments, it is subject to the obligations described below under "– Quantitative and Qualitative Disclosures About Market Risk – Derivative Financial Instruments."

Off-Balance Sheet Arrangements

As of December 31, 2018, the Company did not have any off-balance sheet arrangements.

Quantitative and Qualitative Information Related to Market Risk

Derivative Financial Instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in the Company's audited financial statements, Note 24, included in this Report.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

Embedded Derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Own Use Exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

Financial Risk Management Objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program.

The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments is appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

Market Risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The indirect parent Company's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

Value at Risk (VaR) Analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95% confidence interval in its VaR calculations. The one-day 95% VaR number reflects the 95% probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day), by risk type	**As of December 31,**		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**
Interest rate swaps and commodities	2,258	2,581	4,025
Total VaR exposure	2,145	2,452	3,824

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95% confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations, and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7 to the Company's audited financial statements, included elsewhere in this Report.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Refer to Note 24.4 to the Company's audited financial statements, included elsewhere in this Report.

Foreign Currency Risk Management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it has balances in Mexican pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	As of December 31,		
(in thousands of U.S. Dollars)	**2018**	**2017**	**2016**
Monetary assets			
U.S. Dollar-functional currency subsidiaries	907,113	746,038	171,462
Mexican peso-functional currency subsidiaries	32,146	33,594	19,900
Monetary liabilities			
U.S. Dollar-functional currency subsidiaries	860,870	853,067	779,000
Mexican peso-functional currency subsidiaries	31,325	26,478	34,012

For the Company's U.S. Dollar functional currency subsidiaries the Mexican peso balances include bank accounts and short-term investments, VAT, IT and Flat Tax (IETU by initials in Spanish) receivables or payables, prepaid expenses, guarantee deposits, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, the U.S. Dollar balances include bank accounts, intercompany loans, trade accounts payable and provisions.

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

	As of December 31,			
	2018	**2017**	**2016**	**Feb 19, 2019**
One U.S. Dollar	$19.6829	$19.7354	$20.6640	$19.3625

Foreign Exchange Sensitivity Analysis

The following table details the Company's profit and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10%, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at

the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10% against the Mexican peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican peso. For a 10%weakening of the U.S. Dollar against the Mexican peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

(in thousands of U.S. Dollars)	U.S. Dollar-functional currency subsidiaries			Mexican peso-functional currency subsidiaries		
	2018	2017	2016	2018	2017	2016
Profit (loss)[(i)]	2,943	6,811	38,662	52	(453)	898
Other comprehensive income	—	—	—	414	2,580	(9,486)

[(i)] This is mainly attributable to the exposure to outstanding Mexican peso receivables in the U.S. Dollar functional currency subsidiaries at the end of each reporting period.

The U. S. Dollars functional currency subsidiaries sensitivity to foreign currency decreased mainly due to higher intercompany loans with unconsolidated affiliates.

The Mexican peso functional currency subsidiaries sensitivity to foreign currency has increased mainly due to higher trade and other trade receivables balances.

Interest Rate Risk Management

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of USD$450.0 million from third parties for ECA, which were designated as cash flow hedges.

In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of USD$30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item.

As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of USD $151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5.0 percent.

The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a prepayment in the amount of USD$29.8 million and as a result, such derivative was canceled. The one-year VaR information related to the interest rate swap is included in Note in the Company's audited financial statements, 24.5 included elsewhere in this Report.

Interest rate swap contracts entered into by the Company's joint ventures

The joint venture with Actis entered into swap contracts to effectively hedge financing interest rate risk. See note 10.2.b to the Company's audited financial statements, included elsewhere in this Report.

The joint venture with BlackRock entered into swap contracts to effectively hedge financing interest rate risk. See note 10.5.b to the Company's audited financial statements, included elsewhere in this Report.

The fair value of derivative financial instruments is based on market values □□in force as of the date of the consolidated financial statements, which impact the investments in the joint business against current profits.

The Company's management considers that the result of the sensitivity analysis of these derivatives is insignificant.

Credit Risk Management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties' contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In the natural gas distribution business, ECOGAS, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, which are then confirmed, and
- Registration with the Federal Taxpayers Registry (*Registro Federal de Contribuyentes*) for minor consumption commercial customers.

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and
- Depending on consumption volume, a guarantee may be required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100% of the balances of major customers by the credit and collection department to ensure sure that payments are made in a timely manner and that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty nonperformance.

For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements, and therefore, rely on these agreements for future performance.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the parent Company's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2018, projects were funded with resources obtained from the Global Offering (Note 1.2.2 to the Company's audited financial statements, included elsewhere in this Report). The Company´s current liabilities exceed its current assets mainly due to loans from unconsolidated affiliates and short-term debt. As explained in Note 6 and 22 to the Company's audited financial statements, included elsewhere in this report, the Company has USD$1,033 million of available, or unused, lines of credits with banks.

iii) Internal Controls

The Company's management is responsible for maintaining a system of internal control over financial reporting. This system gives the Company's shareholders reasonable assurance that its transactions are executed and maintained in accordance with the guidelines set forth by the Company's management and its financial records are reliable as a basis for preparing its financial statements.

The system of internal control over financial reporting is supported by ongoing audits, the results of which are reported to management throughout the year. In addition, the Company maintains reliable databases and has systems designed to generate key financial information in real time. These systems also allows for the efficient preparation of the Company's financial reports.

To fulfill its responsibilities regarding the integrity of financial reporting, the Company's management maintains and relies on its system of internal control over financial reporting. This system is based on an organizational structure that delegates responsibility and ensures selection of competent personnel. The system also includes policies that are communicated to appropriate employees.

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

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

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

e) Critical Accounting Estimates, Provisions and Reserves

Critical Accounting Judgments and Key Sources for Estimating Uncertainties

In the application of the Company´s accounting policies, the management required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the 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 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.

Critical Judgments Used in Applying the Company's Accounting Policies

The following are the critical judgments, apart from those involving estimations, , that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

Impairment of tangible and intangible assets (other than goodwill)

When non-current assets and groups available assets classified as held for sale are valued at the lower of its carrying amount and the fair value of the assets less the costs for sale, the difference conforms to the date of the period of report, provided that such assets comply with the criteria to be classified as held for sale.

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.

Finance Lease

Management has determined that certain arrangements should be accounted for as a finance lease, where, the present value of the minimum payments to the start date of the contracts is discounted to the fair value of the assets related to the start date. Details of the financial leases of assets are included in Note 8 to the Consolidated Financial Statements audited included in this report.

Regulatory Accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where a Company has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2018, 2017 and 2016, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, Regulatory deferral accounts on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events. Please refer to Note 37 in the Consolidate Financial Statement disclosures.

Own Use Exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also requires to identify contracts which are not used for operational purposes as derivative instruments.

If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement.

Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

Determining Whether an Arrangement Contains a Lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits or losses and Other Comprehensive Income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Key Sources of Estimation Uncertainty

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

Estimated Useful Life of Property, Plant and Equipment

As described in Note 2.14 to the Company's audited financial statements included elsewhere in this report, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. See Note 14.1 to the Company's audited financial statements, included elsewhere in this report, for useful lives of property, plant and equipment.

Impairment of Long-Lived Assets (Goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis. Please refer to Note 13 to the Consolidate Financial Statement.

Asset Decommissioning Obligations

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the consolidated statements of financial position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

Valuation of financial instruments (fair value measurement)

The Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. As described in Note 24 to the Company's audited financial

statements, included elsewhere in this report provide detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Allowance for doubtful accounts (expected losses)

With the introduction of the new impairment model in IFRS 9, 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 Fair value with changes recognized through other comprehensive income, as well as contracts assets.

The analysis on the impact in the numbers presented in the Consolidated Financial Statements, resulting from the adoption of the standard, described in the Note 2 "Significant accounting policies" and Note 38 “Application of new and revised IFRS” of the Consolidated Financial Statements.

The methodology for determining the expected losses trade and other receivables is set out in Note 5 to the Consolidated Financial Statements audited included in this Annual Report. The estimates and assumptions used to determine the impairment on account receivables are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

Recoverability of Deferred Tax Assets

As mentioned in Note 25 to the Company’s audited financial statements included elsewhere in this report, the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

Measurement of Defined Benefit Obligations: Key Actuarial Assumptions

As described in Note 17 to the Company’s audited financial statements included elsewhere in this report, the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

Selected Valuation Methodology for Businesses Acquisitions

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

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

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

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

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

MANAGEMENT

a) Independent Auditors

Independent auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., members of Deloitte Touche Tohmatsu Limited, whose head office is located in Mexico City. The Company's independent auditors were selected by the Audit Committee and approved by Board of Directors on the basis of their expertise and service and quality standards in terms of article 16 of Rules for External Auditor.

Galaz, Yamazaki, Ruiz Urquiza, S.C., has been the Company's independent auditors since 1996. In the past three years they have not issued any qualified or negative opinion or abstained from issuing an opinion with respect to the Company's financial statements.

The Company's audited financial statements included in this report have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C. In addition, to auditing services, Galaz, Yamazaki, Ruiz Urquiza, S.C., provided other services that do not affect its independence as auditors

The expenses accrued in respect of the fees for services rendered by Galaz, Yamazaki, Ruiz Urquiza, S.C., to the companies that are part of the Company, amounted to USD$1.6 million during 2018. The detail of these amounts is as follows:

a. Audit services: mainly audit services of the annual financial statements and reviews of interim financial statements, for inclusion on the Mexican Stock Exchange and in Singapore by USD$1.3 million which represents 83% of the total fees.

b. Audit-related services: services related to the review of the information required by regulatory authorities or government, agreed financial reporting procedures not requested by legal or regulatory bodies, review of Corporate Social Responsibility in the reports of USD$0.2 million which represents 13% of the total fees.

c. Tax Services and Others: permitted services by the applicable independence regulation; essentially, they are tax assistance, transfer price studies and other services, such as letters for Company's financing of USD$.01 million, which represents 4% of the total fees.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

b) Related Party Transactions and Conflicts of Interest

The following is a description of each transaction that represents an amount in excess of USD$120,000 to which the Company has been a party to since January 1, 2016, and in which one or more of its directors, senior officers or their respective affiliates or family members, or its indirect controlling shareholder or its affiliates has had or will have a material direct or indirect interest. The Company believes that the terms of each such transaction and the consideration that the Company paid or received in connection therewith were comparable with the terms the Company would have obtained and the consideration the Company would have paid or received in an arm's length transaction with a third party.

In the ordinary course of business, the Company engages in a number of transactions with its indirect controlling shareholder and with companies that are owned or controlled, directly or indirectly, by its indirect controlling shareholder or its affiliates.

Intercompany Loan Agreements

Outstanding Loans from Related Parties as of December 31, 2018

The Company has revolving credit facilities in place with several affiliates of its indirect controlling shareholder as lenders. The Company may prepay all or part of the outstanding amount under each loan without penalty. The following table summarizes the key terms of these credit facilities as of December 31, 2018:

Lender	Loan Limit USD$ millions	Principal Outstanding USD$ millions	Interest Rate	Maturity Date
Inversiones Sempra Limitada	166	166	LIBOR + 80 bps, LIBOR + 102.4 bps	November and December 2019
Peruvian Opportunity	102	102	LIBOR + 90 bps	December 2019
Sempra Energy International	50	38	LIBOR + 137 bps	March 2024
TAG Pipelines Norte	35	35	LIBOR + 290 bps	December 2021
Sempra Global	320	0	LIBOR + 90 pbs	August 2020

Loans with Inversiones Sempra Limitada

On March 2, 2015 the Company entered into a USD$90 million loan agreement and a USD$30 million loan agreement with its unconsolidated affiliates, Inversiones Sempra Latin America Limitada and Inversiones Sempra Limitada, respectively, each maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, each loan accrued interest at the rate of 1.98% *per annum*, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% *per annum.* On December 15, 2016, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% *per annum*, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to each of these loan agreements, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, each loan accrues interest at the rate of LIBOR plus 63 basis points *per annum*, payable on a quarterly basis. On November 30, 2018, the Company fully paid principal and interest accrued on the loan of USD$ 90 million; in addition, on the same date, the loan of USD$ 30 million was partially paid, leaving

a remaining balance of USD$10.8 million. On December 15, 2018, the Company entered into an amendment to the loan agreement, where the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 points payable on a quarterly basis.

On December 27, 2016, IEnova entered into a related parties revolving credit facility for USD$70 million with ISLA in order to finance working capital needs and general corporate purposes. Term is twelve months with an option to be extended up to four years. The applicable annual interest rate is 1.75% payable on a quarterly basis. On December 15, 2018, the Company signed an amendment with ISLA modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 102.4 basis points payable on a quarterly basis.

On March 21, 2017, the Company entered into a loan agreement with ISL for the amount of USD$85 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points payable on a quarterly basis. On March 21, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to March 21, 2019. On March 21, 2019, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to November 29, 2019. The loan accrued interest at LIBOR plus 80 basis points that is payable on a quarterly basis.

As of June 1, 2017, ISLA merged with ISL, which is the entity that remained after the merger. The conditions of the agreements between ISL and IEnova remain the same.

Loans with Peruvian Opportunity Company (POC)

On December 27, 2016, IEnova entered into a related party revolving credit facility for USD$20 million with POC, in order to finance working capital needs and general corporate purposes. Term is twelve months, with an option to be extended up to four years. The applicable annual interest rate is LIBOR plus 63 basis points payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment to this loan agreements, pursuant to which the maturity date was extended to December 15, 2018.

On April 27, 2017, the Company entered into a loan agreement with POC for the amount of USD$19 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 60 basis points payable on a quarterly basis. On April 27, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis.

On June 26, 2017, the Company entered into a revolving loan agreement with POC for USD$21 million in order to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points payable on a quarterly basis. On June 26, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018. The loan accrued interest at LIBOR plus 63 basis points that is payable on a quarterly basis.

On September 29, 2017, the Company entered into a revolving loan agreement with POC for USD$21 million to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 70 basis points payable on a quarterly basis. On September 28, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to December 15, 2018.

On December 28, 2017, the Company entered into a revolving loan agreement with POC for the amount of USD$21 million to finance working capital needs and general corporate purposes. The loan term is twelve months, with an option to extend up to four years. The applicable interest rate is LIBOR plus 63 basis points payable on a quarterly basis.

On December 15, 2018, the Company consolidated on a single loan agreement all outstanding debt with POC for a total amount of USD$102 million, modifying the loan agreement, pursuant to which the maturity date was extended to December 15, 2019. Its applicable interest rate is LIBOR plus 90 basis points payable on a quarterly basis.

Loan with Sempra Energy International Holdings N.V. (formerly Sempra Oil Trading)

As of January 1, 2013, the Company had a credit in its balance of USD$38.5 million with Sempra Oil Trading Suisse. The outstanding amount under the provisions of the loan as of December 31, 2018, is USD$38.5 million.

On March 17, 2017, the Company signed an amendment agreement with SOT Suisse in order to extend the loan for seven years. The applicable interest rate is LIBOR plus 180 basis points payable quarterly.

As of November 9, 2018, SOT Suisse transferred all rights and obligations of the loan agreement to Sempra Energy International Holdings N.V. becoming the new lender of the Company. Its applicable interest rate is LIBOR plus 137 basis points payable on a quarterly basis.

Loan with Sempra Global

On November 30, 2018, the Company signed a loan agreement for a revolving credit facility for up to USD $320 million with Sempra Global, the funds of which will be used to finance working capital and general corporate purposes. The agreement expires on August 21, 2020 with an interest rate of LIBOR plus 90 basis point payable on a quarterly basis. As of December 31, 2018, the Company has not made any disbursements on this loan agreement.

Loan with TAG Pipelines Norte

On December 19, 2017, the Company entered into a loan agreement with TAG for the amount of USD$35 million in order to finance working capital needs and general corporate purposes. The loan term is four years. The applicable annual interest rate is six-month LIBOR plus 290 basis points payable on a semi-annual basis.

Loans from Related Parties, fully repaid as of December 31, 2018

Loan with Inversiones Sempra Limitada

On March 2, 2015 the Company entered into a USD$90 million loan agreement with its unconsolidated affiliate, Inversiones Sempra Latin America Limitada maturing in nine months, subject to extension for an additional four-year period. Under its corresponding agreement, loan accrued interest at the rate of 1.98% per annum, payable on a quarterly basis. On December 15, 2015, the Company entered into an amendment, pursuant to which their maturity date was extended to December 16, 2016 and the interest rate was reduced to 1.75% per annum. On December 15, 2016, the Company entered into an amendment, pursuant to which their maturity date was extended to December 16, 2017. Under its corresponding agreement, each loan accrued interest at the rate of 1.75% per annum, payable on a quarterly basis. On December 15, 2017, the Company entered into an amendment, pursuant to which their maturity date was extended to December 16, 2018. Under its corresponding agreement, loan accrues interest at the rate of LIBOR plus 63 basis points per annum, payable on a quarterly basis. On November 30, 2018, the Company fully paid principal and interest accrued on the loan of USD$90 million.

On January 16, 2018, the Company entered into a loan agreement with ISL for the amount of USD$70 million in order to finance working capital needs and general corporate purposes; with maturity date on December 15, 2018.

The applicable interest rate is LIBOR plus 63 basis points and interest is payable on a quarterly basis. On November 30, 2018, the Company fully repaid accrued interest and principal.

Loan with Sempra Energy Holding XI B.V.

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

On August 23, 2017, the Company entered into a loan agreement with SEH for the amount of USD$132.8 million in order to finance working capital needs and general corporate purposes. The loan term is six months. The applicable interest rate is LIBOR plus 61 basis points, and interest is payable on a quarterly basis. On February 6, 2018, the Company entered into an amendment to the loan agreement, pursuant to which their maturity date was extended to August 22, 2018. On the maturity date the Company fully repaid accrued interest and principal.

Loan with Sempra Global

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of USD $800 million with Sempra Global in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 basis points. In October 2016, the company paid the principal and accrued interests, with the net resources from the follow-on equity offering.

Loan with Semco Holdco

On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount USD$350 million with Semco Holdco in order to finance the acquisition of the remaining 50% of IEnova Pipelines, formerly Gasoductos de Chihuahua. The agreed term was two months and the monthly-paid interest rate was LIBOR plus 110 points. In October 2016, this loan was capitalized, increasing the participation of SEMCO in the Company.

Loan with Ductos y Energéticos del Norte

On August 8, 2016, Ductos y Energéticos del Norte granted a loan of USD$3 million to Gasoductos del Sureste, with a term of 10 years and a fixed interest rate of 5.65%. On November 17, 2017, this loan was paid in full, both principal and interest.

Guaranties and Letters of Credit

The Company's indirect controlling shareholder, Sempra Energy, provides credit support (including direct guaranties and letters of credit issued by third parties that are to be drawn on the account of Sempra Energy) for certain of the Company's obligations, including the following:

Obligor	Beneficiary of Guaranty/Letter of Credit	Secured Obligations	Maximum Amount USD$ millions
Termoeléctrica de Mexicali	Gasoducto Rosarito[1]	Firm transportation services agreement dated February 26, 2002	29.4
IEnova Marketing	Gasoducto Rosarito[1]	Interruptible transportation services agreement dated December 18, 2009	3.9
IEnova Marketing	Gasoducto Rosarito[1]	Firm transportation services agreement dated May 01, 2008	59.6
IEnova Marketing	Gasoducto Rosarito[1]	Firm transportation services agreement dated February 15, 2002	62.3
IEnova Marketing	Transportadora de Gas Natural de Baja California [1]	Firm transportation services agreement dated May 01, 2008	45.6
IEnova Marketing	Energía Costa Azul	Firm storage services agreement dated November 29, 2004	282
Energía Costa Azul	Shell	Firm storage services agreement dated April 17, 2009	unlimited
Energía Costa Azul	Gazprom	Firm storage services agreement dated April 17, 2009	unlimited

[1] Gasoducto Rosarito and Transportadora de Gas Natural de Baja California were merged with and into Gasoductos de Aguaprieta on August 1st, 2017.

Power Purchase Agreements

In January 2013 the Company entered into an electricity management agreement with its U.S. affiliate, Sempra Generation. Pursuant to this agreement, which is effective as of January 1, 2012, Sempra Generation has marketed and served as scheduling coordinator for the Company's electricity sales and performed other related administrative, hedging and U.S. regulatory support tasks on the Company's behalf. Under this agreement, the Company reimbursed Sempra Generation's expenses in connection with these services and paid Sempra Generation an annual energy services fee based on the level of service provided to the Company's Termoeléctrica de Mexicali power plant (depending on, among other factors, the amount of energy scheduled and sold by Sempra Generation). In 2016, this agreement was transferred to SGPM. On April 2018, the Company signed an addendum in which the electricity sale placement fee was eliminated. During the years ended December 31, 2018, 2017 and 2016 the Company paid Sempra Generation and SGPM an aggregate of USD$6.8 million, USD$5.1 million and USD$5.5 million, respectively, under this agreement. During the years ended December 31, 2018, 2017 and 2016 Sempra Generation and SGPM paid to the Company approximately USD$182.0 million, USD$130.0 million and USD$107.0 million, respectively, under this agreement.

Natural Gas Purchase and Sale Agreement

In August 2015 the Company and Sempra Generation entered into a scheduling services agreement with Sempra Generation, an affiliate of the Company's indirect controlling shareholder. The agreement was assigned to SGPM on August, 2016. During the years ended December 31, 2018, 2017 and 2016 the Company paid to Sempra

Generation and SGPM an aggregate of USD$2.2 million, USD$1.9 million and USD$2.2 million, respectively, for scheduling and coordination services provided.

Transportation Services Agreements

The Company has entered into a firm transportation services agreement with Southern California Gas Company, or SoCalGas, an affiliate of the Company's indirect controlling shareholder, whereby SoCalGas transports natural gas for the Company's distribution business from the United States to the Mexico–U.S. border near Mexicali. The Company pays for these transportation services based on applicable rate provisions filed with the California Public Utilities Commission. During the years ended December 31, 2018, 2017 and 2016 the Company paid approximately USD$1.9 million, USD$1.3 million and USD$1.5 million, respectively, for transportation services provided by SoCalGas Company pursuant to this agreement.

The Company has also entered into several agreements with SoCalGas for natural gas transportation services on the Rosarito pipelines system and TGN pipeline. These interruptible transportation services agreements renew monthly and may be terminated by either party upon 30 days' notice. For the years ended December 31, 2018 in 2017, the Company received USD$0.7 million and USD$0.2 million, respectively, and less than USD$120,000 for the year ended December 31, 2016.

LNG Purchase and Sale Agreement with Sempra Natural Gas

On January, 2013 the Company's subsidiary IEnova Marketing signed an LNG purchase and sale agreement with Sempra Natural Gas. The contract will expire in August 20, 2029. Pursuant to the terms of this agreement, Sempra Natural Gas agreed to sell and IEnova Marketing agreed to purchase up to 8.2 million m^3 (1,880 MMTh) of LNG annually. To the extent that Sempra Natural Gas delivered to IEnova Marketing less than such amount of LNG, Sempra Natural Gas made payments to IEnova Marketing pursuant to this agreement to cover terminal and pipeline capacity fixed costs associated with each cargo not delivered.

In July 2015, the Company and Sempra LNG International Holdings, LLC entered into a deed of indemnity pursuant to which the payments owed to the Company in the event that Sempra Natural Gas fails to deliver to the Company 8.2 million of m^3 (1,880 MMTh) of LNG per year will be made by Sempra LNG International Holdings, LLC. On the same date, and in order to induce the Company to enter into this deed of indemnity, Sempra Global issued a guarantee pursuant to which it guaranteed the payment obligations of Sempra LNG International Holdings LLC under the deed of indemnity. The agreements reached in the indemnity agreement were terminated by means of a termination agreement dated January 1, 2018.

In August 2015, the Company made a second addendum for the original contract. While the material terms of the new agreement are substantially similar to those of the prior agreement, it does differ in two material respects. First, the new agreement provides that Sempra Natural Gas will make a limited number of LNG cargoes available to the Company for purchase each year for the express purpose of maintaining a sufficient volume of LNG in the Company's terminal such that the terminal can remain continuously operational. Second, the new agreement corrected unintended economic consequences that resulted in larger payments being made by Sempra Natural Gas to the Company under the prior agreement when the number of cargoes delivered annually under the prior agreement was substantially lower than had been anticipated when the prior agreement had been entered into.

In August 2018, the Company made a third addendum for the original contract. The general terms of the contract are maintained, however, a change was made in the mechanics to determine the adjustment to quarterly consumption, which is added or discounted from the monthly compensation.

During the years ended December 31, 2018, 2017 and 2016, IEnova Marketing paid Sempra Natural Gas approximately USD$202.6 million, USD$190.0 million and USD$166.8 million, respectively, for purchases of LNG under this agreement, and Sempra Natural Gas paid IEnova Marketing for indemnity purposes approximately USD $100.3 million, USD$100.3 million and USD$105.2 million, respectively.

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

The Company's U.S. affiliate, Sempra Natural Gas, purchases LNG from suppliers, including pursuant to a long-term contract with the Tangguh partners (a consortium of companies that produce LNG in the Tangguh LNG Project in Indonesia) that have agreed to sell up to 8.2 million m^3 (1,880 MMTh) of LNG to Sempra Natural Gas annually. However, the Tangguh partners may elect to divert all but a limited number of LNG cargoes annually to purchasers other than this U.S. affiliate. Having non-divertible cargoes available under the Company's U.S. affiliate's agreement with the Tangguh partners increases the likelihood that the Company's LNG terminal will be able to maintain sufficient annual volumes of LNG to remain in continuous operation, and ensures that the Company will be able to satisfy at least some portion of the Company's natural gas customer commitments by selling natural gas that has been regasified at the Company's LNG terminal. The Company's U.S. affiliate's agreement with the Tangguh partners expires in 2029, and the Company is a party to the agreement solely with respect to the scheduling of delivery of LNG cargoes and to coordinate the parties' rights with respect to the use of the Company's marine terminal.

Service Agreements

The Company has contracted with various affiliates of the Company's indirect controlling shareholder for certain services provided to the Company in the ordinary course of the Company's business, including financial, marketing, commercialization, regulatory, engineering, technical and information systems services, as well as operational and management support. These agreements generally provide for reimbursement for expenses incurred plus a 5% to 7.5% markup and may be terminated by either party upon 30 days' notice. The following is a summary of these transactions:

Sempra U.S. Gas & Power provides software and IT services to the Company's corporate segment. During the years ended December 31, 2018, 2017 and 2016, the Company paid Sempra U.S. Gas & Power approximately USD $5.4 million, USD$6.9 million and USD$6.9 million, respectively, for these services.

Gas Control and Monitoring Agreements

The Company has entered into gas dispatch and transportation services agreements with Sempra Midstream, an affiliate of the Company's indirect controlling shareholder. Pursuant to these agreements, Sempra Midstream provides monitoring and gas control services, using electronic monitoring and control systems owned by us, in order to optimize pipeline capacity and operations and enable the Company to timely respond to operational events or emergencies affecting the Rosarito pipelines system, TGN pipeline, Aguaprieta pipeline and Naco compression station. The agreements were executed into on January 1, 2011 and have a term of 10 years. Sempra Midstream may terminate these agreements if the Company and Sempra Midstream cease to be under the common control of the Company's indirect controlling shareholder. During the years ended December 31, 2017 and 2016, the Company paid Sempra Midstream approximately USD$0.5 million and USD$0.7 million, respectively, for these services. The amounts that the Company pays Sempra Midstream for these services will be adjusted for inflation in future years.

Other Related Party Transactions

The Company's indirect controlling shareholder and its affiliates pay fees to the Company for certain administrative services and for the use of the Company's facilities. During the years ended December 31, 2018, 2017 and 2016, the Company received approximately USD$1.7 million, USD$1.7 million and USD$1.7 million, respectively, for these services.

Sempra International provides the Company with professional services pursuant to various agreements with the Company's subsidiaries. During the years ended December 31, 2018, 2017 and 2016, the Company paid Sempra International approximately USD$7.5 million, USD$6.2 million and USD$8.2 million, respectively, for these services.

Agreements with Joint Ventures

On April 21, 2017, the Company entered into a revolving credit agreement for up to MXN$9,042 million with IMG (Infraestructura Marina del Golfo, S. de R.L. de C.V.) in order to finance capital expenditures and general corporate expenses for the construction of the South of Texas - Tuxpan pipeline. The term is five years and the loan accrues interest at 91-day TIIE plus 220 basis points payable on a quarterly basis. The accrued interest will be capitalized until the start of operations of the pipeline. On December 6, 2017, the Company increase the amount to $14,168 million pesos with IMG.

On December 15, 2014, Ductos y Energéticos del Norte, a subsidiary of the Company from November 2017, entered into an agreement with TAG Pipelines Norte for providing the operation and maintenance services to the facilities of the Los Ramones Norte pipeline, with a term of 25 years. In 2018 and 2017, the Company received revenue of approximately USD$22.0 million and USD$22.2 million respectively, related to this contract.

On April 1, 2017, Gasoductos y Servicios Corporativos de Administración, a subsidiary of the Company, entered into an agreement with TAG Pipelines Norte for providing personnel services to the Los Ramones Norte pipeline, with a term of 25 years. In 2018 and 2017, the Company received revenue of approximately USD$1.3 million and USD $1.6 million respectively, related to this contract.

On September 30, 2013, CSJ, a subsidiary of the Company, entered into a revolving credit agreement facility with Energía Sierra Juarez for up to USD$50 million, which was increased to up to USD$200 million on March 21, 2014 in order to finance capital expenditures and general corporate purposes. The loan accrues interest at one-month LIBOR plus 637.5 basis points. As of December 31, 2018, the outstanding balance is USD$3.3 million.

c) Management and Shareholders

Pursuant to its bylaws, the Company is managed by a board of directors. The Company is subject to certain corporate governance and management rules established in its bylaws and the Mexican Securities Market Law, as discussed below. This discussion does not purport to be complete and is qualified by reference to the Company's bylaws and the applicable provisions of the Mexican Securities Market Law, the General Rules for Securities Issuers and the regulations issued by the Mexican Stock Exchange.

Board of Directors

The Company's board of directors currently consists of thirteen members and is responsible for managing its businesses. Each director is appointed to serve for one year and may be reelected, but must remain in office until a successor has been appointed and taken office. Directors may be removed at any time by a decision of the Company's shareholders at a general shareholders' meeting. The members of the Company's board of directors are elected by the Company's shareholders. The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate.

Under Mexican law, at least 25% of the members of the board of directors must be "independent" within the meaning assigned to such term in the Mexican Securities Market Law. The Company's bylaws provide for an alternate director to serve in place of an elected director if such director is unable to attend a meeting of the board of directors.

The current members of the Company's board of directors were elected or reelected at the general ordinary shareholders' meeting, held on April 30, 2019.

The following table sets forth certain information regarding the current members of the Company's board of directors:

Name	Age	Gender	Title	First appointed
Carlos Ruiz Sacristán	69	Male	Chairman of the Board	July 2012
Tania Ortiz Mena López	48	Female	Director	January 2019
Joseph Allan Householder	63	Male	Director	March 2013
Erbin B. Keith	58	Male	Director	April 2019
Dennis Victor Arriola	58	Male	Director	April 2017
Peter Wall	47	Male	Director	April 2018
Faisel Khan	43	Male	Director	April 2018
Justin C. Bird	47	Male	Director	October 2017
Allen Nye	51	Male	Director	January 2019
Jeffrey Stephen Davidow	74	Male	Director*	March 2013
Aarón Dychter Poltolarek	66	Male	Director*	March 2013
Alberto Mulás Alonso	57	Male	Director*	April 2017
José Julián Sidaoui Dib	65	Male	Director*	February 2017
Rodrigo Cortina Cortina	50	Male	Secretary (not a Director)	June 2012

*Independent director within the meaning of the Mexican Securities Market Law.

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

Carlos Ruiz Sacristán. Mr. Ruiz is Chairman and Chief Executive Officer of Sempra North American Infrastructure Group and Executive Chairman of the Board of Directors of IEnova as of September 2018. Prior to his appointment, Carlos Ruiz Sacristán was IEnova's Chief Executive Officer and Chairman of the Board of Directors from 2012 to 2018 and member of the Board of Directors of Sempra Energy from 2007 to 2012. Carlos Ruiz Sacristán served as Mexico's Secretary of Communications and Transportation during the administration of Dr. Ernesto Zedillo Ponce de León from 1994 to 2000. Previously he served in various positions at the Central Bank (Banco de Mexico) from 1974 to 1988, the Ministry of Finance from 1988 to 1992, and Petróleos Mexicanos in 1994. Carlos Ruiz Sacristán holds a Bachelor's Degree in Business Administration from Anahuac University in Mexico City and a Master's Degree in Business Administration from

Northwestern University in Chicago. Currently Mr. Ruiz is member of the Board of Directors of Southern Copper Corp, Banco Ve por más, S.A de C.V., Grupo Creatica, S.A. de C.V., member of the Technical Committee of Diego Rivera and Frida Kahlo Museum and a member of the Technical Committee Trust of Museo Nacional de Energía y Tecnología.

Tania Ortiz Mena López Negrete is IEnova's Chief Executive Officer since September 2018. Prior to her appointment, she was Chief Development Officer, responsible for the company's business development and commercial areas from 2016 to 2018. Tania joined IEnova in 2000. She has held the positions of Manager, Project Director, Director for Government and Regulatory Affairs, Vice President of External Affairs and Vice President for Business Development and External Affairs. From 1994 to 1999 Tania worked for PMI, Pemex's international trading subsidiary, where she was responsible for the residual oil products international trading area. Tania holds a Master's Degree in International Relations from Boston University and a Bachelor's Degree from Universidad Iberoamericana in Mexico City. Tania is Board Member of Mexican Natural Gas Association, Board Member of the World Energy Council - Mexico Chapter, Board Member of the Energy Regulatory Commission Advisory Board, member of the Mexican Council for International Relations and as of August 2018 member of the Board of Directors of Oncor Electric Delivery Company, LLC. From 2015 to 2016, Tania was President of the Board of Mexico's Natural Gas Association

Joseph Allan Householder. Joseph Allan Householder is a member of the Company's board of directors and Corporate Group President of Infrastructure Businesses of Sempra Energy. In this position, he oversees Sempra Energy operations in midstream, liquefied natural gas, renewable energy and Mexico. Previously, from 2011 to 2016, Householder served as Sempra Energy's Executive Vice President and Chief Financial Officer. From 2007 to 2011, Mr. Householder was Senior Vice President, Controller and Chief Accounting Officer of Sempra Energy, responsible for financial reporting, accounting and controls, and tax functions for the Sempra Energy companies. Prior to that, he served as Vice President of Corporate Tax and Chief Tax Counsel for Sempra Energy, overseeing Sempra Energy's worldwide tax affairs. Before joining Sempra Energy in 2001, Mr. Householder was a partner at PricewaterhouseCoopers in the firm's national tax office. Previously, he was Vice President of Corporate Development and assistant chief financial officer of Unocal, where he was responsible for worldwide tax planning, financial reporting and forecasting, and risk-management compliance. Earlier in his career, Mr. Householder served as an attorney and certified public accountant at several firm in the Los Angeles area. Mr. Householder currently serves on the board of directors of Advanced Micro Devices and is a member of the Tax Executives Institute, the American Institute of Certified Public Accountants, the State Bar of California and the American Bar Association. Mr. Householder holds a bachelor's degree in business administration from the University of Southern California and a law degree from Loyola Law School. Additionally, he has completed the executive program at the UCLA Anderson School of Management.

Erbin B. Keith. Erbin Keith is a member of the Company's board of directors and deputy general counsel for Sempra Energy. In this role, Mr. Keith leads the administration of the legal department and is responsible for critical regulatory and special initiatives for the company. Previously, from 2017 to 2019, Mr. Keith served as chief regulatory officer and special counsel for Sempra Energy. Prior to that, from 2015 to 2017, Mr. Keith served as chief risk officer and general counsel for San Diego Gas & Electric (SDG&E), one of Sempra Energy's regulated California utilities. Since joining Sempra Energy in 1998, Mr. Keith has held a variety of leadership positions, including senior vice president of external affairs for Southern California Gas Co. (SoCalGas), vice president of regulatory affairs and chief compliance officer for Sempra Energy and president of Sempra Energy Solutions, a former Sempra Energy subsidiary focused on the commercial and industrial energy market. Prior to joining Sempra Energy, Keith served as General Counsel for CES Way. Prior to that, he was an associate attorney at Greenberg, Peden, Siegmyer & Oshman, P.C. based in Houston and was a lead engineer and project manager for Bernard Johnson, Inc. and Suttles, Madget & Dabney Consulting Engineers. Keith serves on the board of directors of Voices for Children in San Diego County. He is a member of the State Bar of California and the State Bar of Texas and a licensed professional engineer. In 2001, Mr. Keith was selected as "Energy Professional of the Year" by the Association of Energy Engineers. He was appointed to the United States Department of Energy's first Federal Energy Management Advisory Committee. Mr. Keith holds a bachelor's degree in mechanical engineering from the University of Texas and a law degree from South Texas College of Law.

Dennis Victor Arriola. Dennis Victor Arriola is a member of the Company's board of directors and executive vice president of corporate strategy and external affairs, and chief sustainability officer for Sempra Energy. In his current role, Arriola oversees Sempra Energy's long-term strategy review, as well as communications, government relations, regulatory and international affairs activities, and corporate social responsibility. Previously, he served as chairman, president and CEO of Southern California Gas Company (SoCalGas), one of Sempra's regulated California utilities. Arriola spent most of the past 23 years in a broad range of leadership roles for the Sempra companies. He served as president and chief operating officer of SoCalGas beginning in 2012, until he was promoted to CEO in 2014. From 2008 to 2012, Arriola left Sempra to work as executive vice president and chief financial officer for SunPower Corp., a Silicon Valley-based solar panel manufacturer. From 2006 to 2008, he was senior vice president and chief financial officer of both San Diego Gas & Electric

and SoCalGas. Previously, Arriola also served as vice president of communications and investor relations for Sempra, and regional vice president and general manager of Sempra's South American operations. He first joined the company in 1994 as treasurer for Pacific Enterprises/SoCalGas. Arriola serves on the boards of directors for the California Business Roundtable (prior chairman of the board), California Latino Economic Institute and the San Diego Regional Economic Development Corporation (executive committee). Arriola also serves on the boards of directors for several Sempra business units, including Chilquinta Energía in Chile (chairman of the board) and Luz Del Sur in Peru (chairman of the board). He has been actively involved in the United Way's efforts to implement Linked Learning in association with the Los Angeles Unified School District. Arriola holds a bachelor's degree in economics from Stanford University and a master's degree in business administration from Harvard University.

Peter Wall. Peter Wall is a member of the Company's board of directors and vice president and chief financial officer at Sempra Infrastructure, LLC, leading the accounting, finance and risk & structuring groups at Sempra Renewables and Sempra LNG & Midstream. Prior to his current position, he was vice president and chief financial officer for Sempra U.S. Gas & Power. Wall served as assistant corporate controller at Sempra Energy, where he led various teams overseeing technical accounting, planning and corporate accounting functions. Wall began his professional career at Ernst & Young LLP, where he worked with numerous multinational companies, including many in the power & utility sector. Wall is a certified public accountant and holds bachelor's and master's degrees in accounting from the University of Utah.

Faisel Khan. Faisel Khan is a member of the Company's board of directors and senior vice president, finance and investor relations for Sempra. Khan is responsible for communicating Sempra Energy's disciplined focus for delivering long-term shareholder value to the investment community. Khan previously was a managing director for Citigroup in New York, covering the natural gas, pipeline, midstream, refining and master limited partnership industries. Khan was ranked as one of the top financial analysts in the natural gas sector for 11 consecutive years by the Institutional Investor Survey. Prior to joining Citigroup in 2005, Khan worked for six years at Credit Suisse First Boston, first in investment banking and, later, as an equity research analyst following the integrated pipeline, merchant power and gas distribution industries. Khan holds bachelor's degrees in engineering and economics from the University of Pennsylvania.

Justin C. Bird. Mr. Bird is a member of the Company's board of directors and chief development officer for Sempra North American Infrastructure. He is responsible for project development activities for all current and future LNG and midstream projects. Previously, Bird was vice president and gas infrastructure special counsel for Sempra Energy. In this position, he led Sempra Energy's response to regulatory and litigation activity related to the operation of SoCalGas' Aliso Canyon natural gas storage field. From 2014 to 2016, Bird served as vice president, compliance and governance and corporate secretary for Sempra Energy, where he directed the company's ethics and compliance programs and also acted as chief governance officer and corporate secretary. From 2012 to 2014, Bird was director of project finance for Sempra Energy, where he managed the successful $7.4 billion financing of Cameron LNG, the proposed liquefaction export terminal in Hackberry, Louisiana, as well as several other significant financings. From 2004 to 2012, Bird held positions as counsel, senior counsel and principal attorney, working on a wide range of business transactions for Sempra Energy and its subsidiaries. Prior to joining the company in 2004, he was an attorney at Latham & Watkins LLP, where he specialized in energy project development and finance. Mr. Bird serves as a board member of the Corporate Director's Forum, which provides board-focused peer networking and director education in corporate governance. Mr. Bird holds a bachelor's degree in accounting from Arizona State University, where he graduated summa cum laude, and a law degree from the University of Pennsylvania, where he was a member of the school's Law Review.

Allen Nye, Jr. has served as a member of Company's board of directors and Chief Executive since the March 9, 2018 closing of the Sempra Acquisition. From January 2011 until March 2018, Mr. Nye served as Sempra's Senior Vice President, General Counsel and Secretary, and in such role was responsible for overseeing all of Oncor's legal and compliance matters. In January 2013 his responsibilities were expanded to include oversight of all regulatory and governmental affairs activity of Oncor. From June 2008 until joining Oncor, Mr. Nye practiced law as a partner in the Dallas office of Vinson & Elkins LLP, where he focused on representation of regulated energy companies before state and federal government agencies, including the PUCT, the State Office of Administrative Hearings and the FERC. Prior to Vinson & Elkins, Mr. Nye was a partner in the law firm of Hunton & Williams LLP (now known as Hunton Andrews Kurth LLP) from January 2002 until May 2008.

Jeffrey Stephen Davidow. Jeffrey Stephen Davidow is a member of the Company's board of directors and has extensive diplomatic experience in both Latin America and Africa. Mr. Davidow served as U.S. Ambassador to Venezuela from 1993 to 1996 and as U.S. Assistant Secretary of State for the Western Hemisphere from 1996 to 1998. From 1998 to 2002, he served as U.S. Ambassador to Mexico. In 2003, Ambassador Davidow retired from the U.S. State Department with the rank of Career Ambassador, the highest position in the Foreign Service which, by law, can be held by no more than five individuals at one time. From 2003 to 2011, Ambassador Davidow served as President of the Institute of the Americas in

San Diego. He currently serves as Senior Advisor for the Cohen Group, an international business consultancy based in Washington, D.C. Ambassador Davidow has published articles in Foreign Policy and Foreign Affairs and authored two books, one on international negotiations and the other, "The U.S. and Mexico: The Bear and the Porcupine." In addition to speaking frequently on hemispheric policy and on Mexican developments for organizations such as the North American Forum, the Trilateral Commission, the Woodrow Wilson Center, the Pacific Council, the Chinese Academy of Social Sciences and the InterAmerican Development Bank, Ambassador Davidow served as an adviser to President Obama for the 2009 Summit of the Americas. He received a Bachelor of Arts from the University of Massachusetts and a Master of Arts from the University of Minnesota.

Aarón Dychter Poltolarek. Dr. Dychter is a member of the Company's board of directors and the President and Founder of ADHOC Consultores Asociados, S.C., providing consulting services in infrastructure, transportation and energy investment projects. From December 1994 to December 2006, Dr. Dychter was Undersecretary of Transportation in the Mexican Ministry of Communications and Transportation. In that capacity, he led privatization processes for railways and airports in Mexico, as well as the creation of the first suburban train system for Mexico City. Previously, he held various positions at the Mexican Ministry of Finance and Public Credit, the Mexican Ministry of Programming and Budget and the Mexican Ministry of Energy. He served as Chairman of the Mexican National Steering Committee for the Normalization of Ground Transportation (*Comité Consultivo Nacional de Normalización del Transporte Terrestre*), member of the board of directors and Deputy Chairman of the Nominating and Compensation Committee of Grupo Aeroportuario del Sureste, member of the board of directors of Grupo Aeroportuario del Centro Norte, Grupo Aeroportuario del Sureste, Grupo Aeroportuario Centro Norte, Grupo Aeroportuario del Pacífico, Grupo Aeroportuario de la Ciudad de México. He currently serves as an advisor to the management of the project for the development of the new Mexico City airport and is a member of the board of directors of Grupo OCUPA and Traxion. Dr. Dychter is a graduate of Universidad de las Américas in Mexico and holds a Master's Degree and a Ph.D. in Economics from George Washington University.

Alberto Mulás Alonso. Alberto Mulás was appointed member of the Company's board of director in April 2017. From January of 2014 to December of 2016, Mr. Mulás was the head of the Banco Itaú-BBA office in Mexico. Previously, from 2003 to 2013, he was in charge of CREsCE Consultores, a consulting firm, specialized in corporate aspects, finance, strategy and corporate governance. During 13 years, Alberto Mulás was involved in the investment banking activities with Donaldson Lufkin & Jenrette (from 1999 to 2001) and with Lehman Brothers (from 1992 to 1996). From 2001 to 2003, he served in the Mexican Federal Government during the administration of President Vicente Fox, where he was in charge of the design, structuring and implementation of the national housing policy, the incorporation of the National Housing Commission (*Comisión Nacional de Vivienda*) and Federal Mortgage Company (*Sociedad Hipotecaria Federal*). Alberto Mulás serves in the board of directors of publicly traded and family companies, as independent member. Alberto Mulás has advised multilateral entities such as the International Monetary Fund, the Interamerican Development Bank and the World Bank. Alberto Mulás holds a Chemical Engineer degree from Universidad Iberoamericana, where he graduated with honors and holds a master's degree (MBA) from the University of Pennsylvania (1987).

Jose Julian Sidaoui Dib. Mr. Sidaoui was appointed member of the Company's board of director in February 2017. Currently, he is an advisor and independent director of several financial institutions in the country and abroad. Previously, Mr. Sidaoui worked at the World Bank and Banco de Mexico, an institution he joined in 1979. There, he held various positions in the Economic and Operations area of Central Banking, where he was General Manager for more than 10 years. In December 1994, he was appointed Undersecretary of Finance and Public Credit. In 1997, he returned to the Banco de México to serve as Deputy Governor for two consecutive terms until 2012. Dr. Sidaoui has published several articles on structural change, exports, financial markets, public finances, monetary policy and corporate governance, and best practices in Central Banking. He has participated in various working groups of the International Bank for Payments and has been professor of Economics. He holds a PhD in Economics from George Washington University, a master's degree from the University of Pennsylvania and a degree in economics from the University of the Americas, Puebla.

Board of Directors, composition by gender: 92% male and 8% female.

Functions of the Board of Directors

The Board of Directors is the Company's legal representative and is authorized to take any action, as a collegiate body, in connection with the Company's operations not expressly reserved to its shareholders.

The Board of Directors has the power, among other matters to:

- Approve the Company's general strategy;
- Authorize, with the prior opinion of the audit and corporate practices committees: (1) any transaction with related parties, subject to very limited exceptions, (2) the appointment and removal of the Chief Executive Officer and other relevant senior managers, as well as to determine their functions and remuneration; (3) the Company's internal control and internal audit guidelines and those of its subsidiaries; (4) the Company's financial statements and those of its subsidiaries, (5) unusual or non-recurring transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of the Company's consolidated assets or (b) the granting of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of the Company's consolidated assets, and (6) the appointment of external auditors;
- Call shareholders' meetings and acting on their resolutions;
- Create special committees and granting them powers and authority, with the exception of those that, by law, or under the Company's bylaws are expressly reserved to the shareholders or the Company's Board of Directors;
- Submit the Chief Executive Officer's annual report to the general shareholders' meeting (which includes the Company's audited annual financial statements) and a report about the accounting policies and criteria used for the preparation of the Company's financial statements;
- Issue an opinion on the price of Company share placements by means of Global Offerings;
- Approve the policies related to disclosure of information;
- Determine the measures to be adopted in the event that irregularities are detected; and
- Exercise the Company's general powers in order to comply with its corporate purpose.

The meetings of the Board of Directors will be validly convened and held if a majority of its members are present; and its resolutions will be valid if approved by a majority of the members present, unless the Company's bylaws require a higher number of votes. The Chairman of the Board of Directors has a tie-breaking vote. Notwithstanding the above, at any time the shareholders may override a decision made by the Board.

Meetings of the Board of Directors may be called by (1) 25% of the board members, (2) the Chairman of the Board of Directors, (3) the Chairman of the Audit Committee or the Corporate Practices Committee, or (4) the Secretary to the Board of Directors.

The Securities Market Law imposes a duty of diligence and loyalty on the directors. See "Securities Market Law".

The members of the board and, if applicable, the Secretary to the Board of Directors during meetings must abstain from participating and voting on matters in which they might have a conflict of interest with the Company, without this affecting the necessary quorum for that particular meeting.

The members of the Board of Directors and the Secretary to the Board of Directors, would breach their duty of loyalty and be liable for damages to the Company and, if applicable, its subsidiaries if they have a conflict of interest and they vote or make a decision with respect to the Company's or its subsidiary's assets or if they fail to disclose any conflict of interest they may have unless confidentiality duties prevent them from disclosing such conflict.

Committees of the Board of Directors

The Board of Directors has established an audit committee and a corporate practices committee to provide particular focus on the oversight of important aspects of the Company's transactions.

Audit Committee

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

The current audit committee members are Aaron Dychter as President, Jose Julian Sidaoui, Alberto Mulás and Jeffrey Dadivow who were appointed by an ordinary general meeting of Company shareholders on April 30, 2019. The

Company considers that all members of its audit committee are independent and are experts in the terms of the Securities Market Law.

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

- Submit recommendations to the Board of Directors with respect to the appointment or removal of external auditors;
- Supervise the external auditors' work and to analyze their reports;
- Analyze and supervise the preparation of the Company's financial statements;
- Submit to the Board of Directors a report about the Company's internal controls and their suitability;
- Request information from the relevant officers of the company when it deems it necessary;
- Assist the Board of Directors in the preparation of a report on the operations and activities in which the Board of Directors has participated, in accordance with the Securities Market Law;
- Report any irregularities it may detect to the Board of Directors;
- Receive and analyze proposals and observations made by shareholders, advisors, relevant senior managers, external auditors or third parties, and adopt the necessary measures based on these recommendations or observations;
- Call shareholders' meetings;
- Ensure that transactions with related parties comply with applicable laws;
- Oversee the implementation by the Chief Executive Officer of resolutions taken by the shareholders' meetings or the Board of Directors in accordance with the instructions issued by each of these bodies; and
- Provide an annual report of its activities to the Board of Directors.

The chairman of the audit committee has the responsibility of preparing an annual report about the activities of the committee for submission to the Board of Directors. This report must include at least: (1) the status of the Company's internal control and internal audit systems, and where relevant, any deviations and deficiencies they may present, as well as aspects that should be improved, considering the external auditors' and independent experts' reports; (2) the results of any preventive and corrective measures taken based on results of investigations of non-compliance with operating or financial policies, (3) the evaluation of the external auditors, (4) the main results from the review of the Company's financial statements and those of its subsidiaries, (5) the description and effects of changes to accounting policies, (6) the measures adopted as a result of observations made by shareholders, directors, relevant members of the senior management and third parties related to accounting, internal controls, and internal or external audits, (7) follow-up of the implementation of resolutions taken at shareholders' and the Board of Directors' meetings; (8) observations with respect to the performance of relevant directors and officers; and (9) the remuneration paid to relevant directors and senior managers.

Corporate Practices Committee

The current members of the Corporate Practices Committee are Jeffrey Davidow as President, Jose Julián Sidaoui, Alberto Mulás, Aaron Dychter Poltolarek and Joseph Allan Householder, who were appointed by the ordinary general meeting of shareholders on April 30, 2019. In accordance with the provisions of the Securities Market Law, the majority of the members of the Corporate Practices Committee are independent because the Company's indirect controlling shareholder owns at least 50% of the Company's equity. Jeffrey Davidow, Jose Julián Sidaoui, Alberto Mulás and Aaron Dychter Poltolarek are the independent members. The Company believes that all members of its Corporate Practices Committee are independent and at least one of its members is a financial expert in terms of the Securities Market Law.

The Corporate Practices Committee has powers including:

- To assist the Board of Directors in the approval of the policies and guidelines for the execution of transactions with related parties and in reviewing that those transactions between related parties that are in turn subject to the cross-share regulation, in terms of the article 83 of the Hydrocarbon Law, fully comply with the provisions of said article and the applicable policies of the Company;

- To verify that those transactions between related parties that are in turn subject to the cross-share regulation, in terms of Article 83 of the Hydrocarbon Law, fully comply with the provisions of said article and the applicable policies of the Company;
- To provide opinions and make recommendations to the Board of Directors;
- To provide assistance to the Board of Directors in the preparation of reports on the main accounting and information guidelines used in the preparation of financial information;
- To advise the Board of Directors on the appointment of the Chief Executive Officer and other relevant senior managers, as well as to determine their responsibilities and remuneration;
- To advise the Board of Directors on the preparation of reports for the annual shareholders' meeting;
- To request and obtain opinions and recommendations from independent experts;
- To provide opinions on transactions with related parties; and
- To call shareholders' meetings.

The Chairman of the Corporate Practices Committee is responsible for preparing an annual report to the Board of Directors with respect to: (1) observations regarding the performance of relevant senior managers; (2) transactions with related parties, describing the main characteristics of significant transactions, (3) the remuneration paid to relevant advisors and members of senior management; and (4) granting permission to advisors or members of the senior management to take advantage of business opportunities.

Senior Officers

The following table sets forth certain information regarding the Company's senior officers as of December 31, 2018:

Name	Age	Gender	Title
Carlos Ruiz Sacristán	69	Male	Chairman of the Board and Executive President
Tania Ortiz Mena López Negrete	48	Female	Chief Executive Officer
Manuela Molina Peralta	46	Female	Chief Financial Officer
Juan Rodríguez Castañeda	54	Male	Chief Natural Gas Operating Officer
Abraham Zamora Torres	50	Male	Chief Corporate Affairs Office
Jesús Córdoba Domínguez	58	Male	Chief Engineering and Construction Officer
Carlos Barajas Sandoval	50	Male	Chief Power and Storage Operating Officer
René Buentello Carbonell	50	Male	General Counsel and Chief Compliance Officer
Juancho Eeckhout	42	Male	Chief Development Officer
Roberto Rubio Macías	46	Male	Vice President, Controller
Jorge Molina Casellas	49	Male	Vice President of Commercial
Susan Bradham	49	Female	Director of Investor Relations

The following is a summary of the experience and principal business interests of current the Company's officers:

Carlos Ruiz Sacristán. See "– Board of Directors."

Tania Ortiz Mena López Negrete See "– Board of Directors."

Manuela Molina Peralta. Manuela ("Nelly") Molina is the Company's Chief Financial Officer since July 2017. Previously, she served as Vice President of Finance from 2010 to 2017. Before joining the Company, she served as Vice President of Finance at El Paso Corporation in Mexico from 2001 to 2010. Before joining El Paso Corporation (Mexico), Ms. Molina was General Manager of Kinder Morgan (Mexico) and, prior to that, worked for the first distributor of natural gas in Hermosillo, Sonora, from 1997 to 2001. In 2015, Ms. Molina was national president of the Mexican Institute of Finance Executives (*Instituto Mexicano de Ejecutivos de Finanzas*), and she is currently chairman of the Issuers Committee of the Mexican Stock Exchange and independent advisor of the New Mexico City Airport Project. She is also a board member and founder of NatGas Querétaro. Ms. Molina holds a Bachelor's Degree in Accounting from the Universidad de Sonora and a Master's Degree in Finance from the Instituto Tecnológico de Estudios Superiores de Monterrey.

Juan Rodríguez Castañeda has been IEnova's Chief Natural Gas Operating Officer since September 2018. Previously he served as the Company's Chief Corporate Affairs & Human Resources officer from May 2016 to 2018 and Vice President of Corporate Affairs and Human Resources from 2014 to 2016. Before joining IEnova he worked for 10 years in the aviation sector, where he served as Chief Corporate & Industry Affairs Officer from 2013 to 2014, Chief Human Resources Officer from 2010 to 2013 in Aeromexico, Chief Executive Officer in SEAT, currently Aeromexico Servicios in 2010 and Chief Executive Officer in Aeromexpress currently Aeromexico Cargo from 2004 to 2010. Juan Rodríguez Castañeda also served in the Mexican Public Administration from 1988 to 2004 including posts within the Secretary of Finance and Public Credit, Secretary of Communication and Transportation (SCT), Pemex, as well as the Office of the Presidency, his most relevant positions were Chief of Staff for three Secretaries and General Coordinator of Planning at the Secretary of Communication and Transportation. Juan Rodríguez Castañeda holds a Bachelor's degree in Economics from Instituto Tecnológico Autónomo de México (ITAM).

Jesús Córdoba Domínguez has been IEnova's Chief Engineering & Construction Officer since May 2016. Previously he served as the Vice President of Engineering & Construction from 2012 to 2016 and Director of Operations and Transportation from 2010 to 2012. Jesús Córdoba worked for El Paso Corporation in Mexico as Project Manager for Subsidiaries from 2001 to 2010 and as Superintendent of Contracts with TransCanada Pipelines in Mexico from 1998 to 2001. Jesús has 37 years of experience in infrastructure project execution, including 18 year of experience in project management in the construction industry in Mexico. Jesús Córdoba has a bachelor Degree in Civil Engineering from the Universidad La Salle, specializing in project management.

Carlos Barajas Sandoval. Carlos Barajas has been Chief Power and Storage Operating Officer since September 2018. Previously he served as IEnova's Chief Operating officer from 2016 to 2018, Vice President of Operations from 2013 to 2016 and Vice President of Gas in 2013. Before joining IEnova, Carlos Barajas worked for LNG's Terminal in Altamira as General Director from 2007 to 2013; Director of Business Development for Shell Mexico from 2005 to 2007, Commercial Director for InterGen Mexico from 200 to 2005 and Commercial Manager for Energía Mayakan from 1997 to 2000. Carlos Barajas holds a Bachelor's Degree in Civil Engineering from the Instituto Politécnico Nacional in 1992 and a Master's Degree in Engineering from British Columbia University in 2000 and a Master's Degree in Business and Economics from the Universidad Anáhuac in 2007.

René Buentello Carbonell. René Buentello has been IEnova's General Counsel and Chief Compliance Officer since September 2018. Previously he served as Chief Legal Counsel from 2016 to 2018, Vice President and General Counsel from 2014 to 2016 and General Counsel from 2010 to 2014. René Buentello began his corporate lawyer career at the industrial division of Grupo Carso, where he served as Legal Manager at Grupo Nacobre and Grupo Aluminio and Alternate Secretary and Secretary, respectively, of the Board of Directors of those companies from 1990 to 2002, and later he joined Pemex, where he served in various positions in the transportation and logistical areas of Pemex-Gas and Pemex-Refining from 2002 to 2008. Subsequently, he served as Business Development Director at El Paso Corporation in Mexico from 2008 to 2010. René Buentello holds a law degree and graduate degrees in Economic and Corporate Law, Commercial Law and International Finance Law, all from the Universidad Panamericana.

Juancho Eekhout Smith has been IEnova's Chief Development Officer since September 2018. Previously he served as Vice President of Development from 2016 to 2018. Prior to that, he served as senior director of Commercial Development for Sempra LNG & Midstream from 2014 to 2016, where he led the initial stage of development of the Energía Costa Azul liquefaction project in Baja California, Mexico. Previously, he worked as San Diego Gas & Electric's director of Strategic Planning & New Products and Services and as the utility's director of Origination & Portfolio Design from 2010 to 2013. Eekhout began his career with Sempra Energy in 2008 as director of Mergers and Acquisitions where he played a key role in the divestment of RBS-Sempra Commodities and supported the acquisition of El Paso's assets in Mexico. Prior to joining Sempra Energy, he worked eight years in the Oil Trading and Refining & Fuel Marketing departments at British Petroleum. Juancho Eekhout holds a master's degree in public policy from the University of Chicago and a bachelor's degree in economics from the Universidad Católica Andrés Bello in Venezuela.

Abraham Zamora Torres. Abraham Zamora Torres has been IEnova´s Chief Corporate Affairs Officer since December 2018. Before joining IEnova he worked as Chief of Staff of the Minister of Foreign Affairs from 2017 to 2018, Chief Executive Officer in the National Bank of Public Works and Services (BANOBRAS) from 2015 to 2017, and Head of the Economic Productivity Unit at the Ministry of Finance and Public Credit from 2013 to 2015. From 2006 to 2013, Abraham served as Chief Corporate and Industry Affairs Officer at Aeromexico and as President of the National Air Transportation Association from 2011 to 2013. Between 1991 and 2004 he held several positions at Mexican Public Administration, including within the Ministry of Finance and Public Credit and the Ministry of Communications and Transportation. Abraham Zamora holds a bachelor´s degree in Economics from Instituto Tecnológico Autónomo de México

(ITAM) and has two master degrees in Public Policy and Administration from Columbia University and Political Economy from University of Essex.

Roberto Rubio Macías. Mr. Rubio has been our Vice President Controller since May 2016. Before that, Mr. Rubio was our General Controller since 2012. From 2001 to 2012, he was Foreign Investments Accounting Manager at Sempra Energy in San Diego, Internal Auditing Manager at Luz del Sur (a subsidiary of Sempra Energy in Lima, Peru), Financial Reporting Manager at IEnova in Tijuana, Controller of Termoeléctrica de Mexicali and Accounting Manager and Controller at Ecogas in Chihuahua. Prior to joining Sempra Energy in 2001, Mr. Rubio served as Administrative Manager at Denimtex from 1998 to 2001, Regional Administrative Supervisor at British American Tobacco from 1996 to 1998, and Senior Auditor at Galaz, Yamazaki, Ruiz Urquiza (Deloitte) in Chihuahua from 1993 to 1996. He has been registered as a certified public accountant with the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*) since 2001. Mr. Rubio holds a Bachelor's Degree in Accounting from Universidad Autónoma de Chihuahua, and a Master's Degree in Business Administration from the Universidad Autónoma de Chihuahua. Mr. Rubio also holds a Master's Degree from Instituto Tecnológico y de Estudios Superiores de Monterrey, in Innovation for Business Development in 2017.

Jorge Molina Casellas. Jorge Molina has been the Company's Vice President of Commercial since May 2016. From 2012 to 2016, Mr. Molina acted as Business Director and has occupied managing positions in the commercial, finance, projects, regulation and operations areas and in various business units since joining the Company in 1997. Prior to joining us, Mr. Molina served as a financial advisor at Bancomer from 1993 to 1997. Mr. Molina holds a Bachelor's Degree in Business Administration and a Masters Degree in Corporate Finance from Centro de Enseñanza Técnica y Superior Campus Mexicali.

Susan Bradham. Sue Bradham has been the Company's Director of Investor Relations since June 2016. From August 2002 to June 2016, she served in various commercial and strategic roles across Sempra International, Sempra LNG, and Sempra U.S. Gas & Power. Before joining Sempra Energy in 2002, Ms. Bradham worked as a management consultant at Booz Allen & Hamilton and as an engineer in project development and operations roles at ExxonMobil. Ms. Bradham holds a Bachelor's Degree in Mechanical Engineering from Stevens Institute of Technology and a Master's Degree in Business Administration from the Wharton School at the University of Pennsylvania. She is a registered Professional Engineer in the state of Texas.

Senior officers, composition by gender: 75% male and 25% female.

Activities of Senior Officers

The role of the Chief Executive Officer and the other members of senior management is to focus their activities on increasing the value of the Company. The Chief Executive Officer and senior management may be held liable for damages to the Company, or to its subsidiaries if applicable, if : (1) they knowingly favor a certain shareholder or group of shareholders, (2) they approve transactions between the Company or its subsidiaries, with related persons without complying with the applicable legal disclosure requirements, (3) they take personal advantage from the use or enjoyment of the Company's or its subsidiaries' assets against company policy (or authorize third parties to do so); (4) they make inappropriate use of the Company's, or its subsidiaries,' non-public information, or (5) they knowingly disclose or reveal false or misleading information.

The Chief Executive Officer and the members of the senior management are required, under the Securities Market Law, to act for the Company's benefit and not that of a particular shareholder or group of shareholders. The main functions of the Chief Executive Officer include: (1) implementing the resolutions approved during shareholders' meetings and by the Board of Directors, (2) submitting the main strategies of the business to the Board of Directors for approval, (3) submitting proposals for internal control systems to the audit and corporate practices committees, (4) disclosing relevant information to the public, and (5) maintaining adequate accounting and internal control systems and mechanisms. The Chief Executive Officer and the members of the senior management are also subject to the same type of obligations as the directors.

As of the date of this report, none of the directors or executive officers of the Company is a holder of more than 1% of the Company's shares.

Business Address of the Company's Directors and Senior Officers

The business address for all members of the Company's board of directors and senior officers is Torre New York Life, Paseo de la Reforma No. 342, Piso 24, Colonia Juárez, 06600 Ciudad de México, Attention: Infraestructura Energética Nova, S.A.B. de C.V.

Family Relationships

There are no family relationships among the Company's directors and senior officers, or among the Company's directors and senior officers and the directors and senior officers of the Company's indirect controlling shareholder.

Labor Inclusion Policy

The Company does not have a labor inclusion policy; however the talent's attraction policy establishes that IEnova is governed by certain integrity standards, among which IEnova does not discriminate for any reason: sex, race, age, religious creed, political doctrine or social or physical condition or sexual orientation. This is how the Company recognizes the equality and dignity of people, respecting their freedom and privacy at all times. Compliance with the above is monitored by the Corporate Ethics Committee, headed by the Executive Vice President and General Counsel, and the Development, Equity and Diversity Committee chaired by the Executive Vice President of Corporate Affairs and Human Capital. The Company has a toll-free confidential telephone line and a Corporate Ethics Officer specialized in dealing with any type of situation that might occur in violation of established integrity standards.

Likewise, IEnova subscribes to the United Nations Global Compact in the field of human rights; this UN Global Compact asks companies to adopt, support and enact, within their sphere of influence, a set of fundamental values in the areas of human rights, labor standards, the environment and anti-corruption.

Legal Proceedings Involving the Company's Directors or Senior Officers

As of the date of this report, there are no judicial or administrative proceedings pending against any of the Company's directors and/or senior officers.

Compensation of the Company's Directors and Senior Officers

The aggregate amount of compensation paid by the Company to the members of the senior management for the years ended December 31, 2018, 2017 and 2016, was USD$13.5 million, USD$10.3 million and USD$7.1 million, respectively. The Company continuously reviews the salary, bonus and other compensation plans to offer competitive compensation arrangements for the management.

The Company's director compensation plan covers only independent, non-employee directors. Each of the Company's independent directors receives (i) an annual fee of USD$21,100, payable in four equal quarterly payments and (ii) an annual fee of USD$33,900 for their performance as board and committee members, payable in four equal quarterly payments. Additionally, the Company's independent directors receive compensation that is tied to the performance of the Company's stock. These values will be convertible once a year, pursuant to the terms determined by the special delegates appointed for such purpose, and subject to such director continuing to exercise his or her duties as of the conversion date. Non independent directors do not receive any compensation for their services as directors or members of the audit or corporate governance committees.

The terms of this phantom stock compensation are determined by a committee of the Company's board of directors composed entirely of non-independent directors.

Also, as of December 31, 2018, 2017 and 2016 , the Company's accrued amount for pension, retirement or similar plans that correspond to members of the board, relevant directors and other related parties was USD$1.8 million, USD$1.7 million and USD$1.3 million, respectively.

Executive Restricted Grants

In addition to salary, members of the Company's senior management team annually receive time and performance based restricted grants. Performance-based grants are based upon the performance of the Company's stock and other performance metrics. Long-term executive restricted grants is determined according to Sempra and IEnova stock price performance, and others. It will be paid in cash and / or shares of Sempra, as the case may be, after three years of having been granted and subject to the executive remaining in service on such date. The restricted grants based on IEnova's shares, will be paid in cash.

Seniority Compensation Plan

Pursuant to Mexican Federal Labor Law, the Company grants seniority fees to employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of salary for each year of employment (based on the last salary of the employee, but not higher than twice the minimum legal wage). This fee is paid to all employees with 15 years or more of service and when the Company unilaterally severs employment.

Shareholding April, 2019

Shareholders with more than 10% of issuer's equity: Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex; 28.1%

Shareholders with significant influence: none

Shareholders with control: Semco Holdco, S. de R.L. de C.V., 66.4%

Semco Holdco S. de R.L. de C.V., the shareholder of 66.42% of IEnova's equity, is controlled by Sempra Energy, an American holding company based in San Diego, California, dedicated to the energy sector and listed in the New York Stock Exchange under the ticker "SRE".

With the exception of the abovementioned, the Company is not under control or significative influence of any person, foreign government or entity, as such terms are defined in the Securities market law. Likewise, as of today, the Company does not have any commitment that could represent a change in the control of its shares.

DESCRIPTION OF THE COMPANY'S CAPITAL STOCK AND BYLAWS

d) The Company's Bylaws and Other Agreements

Set forth below is a description of the Company's capital stock and a brief summary of certain significant provisions of the Company's bylaws and Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to the Company's bylaws and the relevant provisions of Mexican law.

General

The Company was incorporated on April 2, 1996 under the name "Enova de México, S.A. de C.V." and subsequently, on April 25, 2008, became a limited liability company (*sociedad de responsabilidad limitada*) organized pursuant to the Mexican Corporations Law and changed the Company's name to "Sempra Energy México, S. de R.L. de C.V." On December 3, 2008 the Company changed its name to "Sempra México, S. de R.L. de C.V." On February 15, 2013, the Company transformed into a variable capital stock corporation (*sociedad anónima de capital variable*), which transformation became effective on February 20, 2013. On March 1, 2013, the Company changed its name to "Infraestructura Energética Nova, S.A. de C.V." Through a unanimous resolution on March 6, 2013, the Company's shareholders approved amending and restating the bylaws to conform them to the provisions of the Mexican Securities Market Law applicable to public companies, to adopt the form of a variable capital publicly traded corporation (*sociedad anónima bursátil de capital variable*) and to change the name to "Infraestructura Energética Nova, S.A.B. de C.V." On October 7, 2016, the Twenty-eighth Clause of the articles of incorporation was amended in order to suppress the requirement to publish calls within the official period in the company's domicile or through any widely read newspaper in said place, and to include instead the publication through the Electronic system of Publications for Commercial Corporations of the Economics Ministry. A copy of the Company's amended and restated bylaws has been filed with the Mexican National Banking and Securities Commission and the Mexican Stock Exchange, and is available for review at www.bmv.com.mx.

The duration of the Company's corporate existence is indefinite. The Company is a holding company and conduct all of its operations through its subsidiaries.

Capital stock

Because the Company is a variable capital stock corporation, the Company's capital stock must have a fixed portion and may have a variable portion. As of the date of this report the Company's issued and outstanding capital stock consists of 1,534,023,812 shares of a single series of common stock, no par value, of which 5,000 are Class I shares representing the Company's fixed capital and 1,534,018,812 are Class II shares representing the Company's variable capital. In addition, the Company has 330,000,000 Class II shares held in treasury, which will be available for sale in connection with a projected public offering. The Company's shares are not subject to any ownership restrictions and, accordingly, may be issued to and held by both Mexican and non-Mexican investors.

Changes in the Company's Capital Stock in the Past Three Years

In the last three years, the only increase of capital was approved in an extraordinary general shareholders' meeting held on October 7, 2016, which approved the increase of the Company's capital equity in MXN$3,800 million and the issuance of up to 380 million ordinary registered Class II shares which were offered and fully placed in the Company's subsequent public equity offering.

Voting Rights and Shareholders' Meetings

All of the Company's shares have full voting rights. Each share entitles the holder to one vote at any meeting of the Company's shareholders.

Pursuant to the Company's bylaws, the Company may hold ordinary or extraordinary shareholders' meetings. Ordinary shareholders' meetings are those which are called to discuss any matter that is not reserved for discussion at an extraordinary shareholders' meeting. The Company must hold an ordinary shareholders' meeting at least once each year, within the first four months following the end of the Company's fiscal year, to discuss, among other things, the approval of the financial statements, the report prepared by the board of directors on the financial statements, the appointment of members of the board of directors and the determination of the compensations of the members of board of directors.

Extraordinary shareholders' meetings are those which are called to discuss, among others, the following matters:

i) an extension of the duration of the Company's corporate existence;

ii) the Company's dissolution;

iii) an increase or decrease in the Company's capital stock;

iv) a change in the Company's corporate purpose or nationality;

v) any transformation, merger or spin-off involving us;

vi) any stock redemption or issuance of preferred stock;

vii) any redemption of the Company's shares using retained earnings;

viii) the issuance of bonds, debentures, obligations, debt or equity instruments, or other similar instruments;

ix) the cancellation of the registration of the Company's shares with the Mexican National Securities Registry or the delisting of the Company's shares from any stock exchange;

x) amendments to the Company's bylaws; and

xi) any other matter for which Mexican law or the Company's bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held in the same city as the Company's corporate offices, which are in Tijuana, Baja California. Shareholders' meetings may be called by the chairman of the Company's board of directors, the chairman of the audit committee, the chairman of the corporate governance committee, the secretary or a Mexican court of competent jurisdiction. In addition, any holder of at least 10% of the Company's outstanding capital stock has the right to request that the Company's board of directors, the audit committee or the corporate governance committee call a shareholders' meeting to discuss the matters indicated in the relevant request.

Notices of shareholders' meetings must be published in the Electronic System of Publications of Mercantile companies of the Ministry of Economy, at least 15 calendar days prior to the date of the meeting. Each notice must set forth the place, time and agenda for the meeting and must be signed by the person convening the meeting. From the date on which a notice is published until the date of the meeting, all relevant information regarding such meeting must be made available to the shareholders.

To be admitted to a shareholders' meeting, shareholders must submit evidence of the deposit of their stock certificates with a financial institution, brokerage firm or securities depositary, at least one day prior to the relevant meeting. The Company will then issue certificates that can be used to gain admission to the meeting. Shareholders may designate one or more authorized representatives with general or special powers and authority to represent them at a meeting, or appoint a representative using the proxy forms that the Company will make available during the 15-day period prior to each meeting.

Quorums

Ordinary meetings are legally convened on a first notice when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at ordinary meetings of shareholders pursuant to a first notice are valid when approved by the holders of the majority of the voting shares present at such meeting. At meetings called by a second notice, any number of shares represented at an ordinary meeting of shareholders constitutes a quorum and resolutions are valid when approved by the holders of a majority of the shares represented at the meeting.

Extraordinary shareholders' meetings and special shareholders' meetings are legally convened on a first notice when at least 75% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a first notice are valid when adopted by the holders of over 50% of the Company's outstanding voting shares. At extraordinary shareholders' meetings called by a second or subsequent notice, meetings are legally convened when over 50% of the Company's outstanding shares are present or duly represented. Resolutions at an extraordinary meeting of shareholders called pursuant to a second or subsequent notice are valid when adopted by the holders of shares representing over 50% of the Company's outstanding voting shares

Approval from the holders of shares representing 95% of the Company's capital stock, whether voting or non-voting, is required to request to the Mexican Banking and Securities Commission that the registration of the Company's shares on the Mexican Securities Registry be canceled in accordance with the Mexican Securities Market Law and other applicable laws.

Dividends and Distributions

Typically, at an annual ordinary shareholders' meeting, the board of directors submits the Company's financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of the Company's net profits for the preceding fiscal year. By statute, prior to any distribution of dividends, the Company is required to allocate 5% of the Company's net profits to a legal reserve fund until the legal reserve fund equals 20% of the Company's paid-in capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including amounts allocated to a reserve for the repurchase of shares. The remaining balance, if any, may be distributed as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been restored.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. If and when the Company declares dividends, the Company will distribute through Indeval cash dividends for shares held through Indeval. Any cash dividends on shares evidenced by physical certificates will be paid upon surrendering to the Company the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

Changes to The Company's Capital Stock

The fixed portion of the Company's capital stock may be increased or decreased by a resolution adopted by the Company's shareholders in an extraordinary shareholders' meeting, provided that the Company's bylaws are concurrently amended to reflect the increase or decrease in capital stock. The variable portion of the Company's capital stock may be increased or decreased by the Company's shareholders in an ordinary shareholders' meeting without the amendment of the Company's bylaws.

Increases or decreases in the fixed or variable portion of the Company's capital stock must be recorded in the Company's registry of capital variations, which the Company is required to maintain under the Mexican Corporations Law. The minutes of any shareholders' meeting where the Company's fixed capital is increased or decreased must be notarized and registered before the corresponding Public Registry of Commerce. New Shares cannot be issued unless the issued and outstanding Shares at the time of the issuance have been paid in full, except in certain limited circumstances.

Share Repurchases

The Company may choose to acquire the Company's own shares through the Mexican Stock Exchange on the following terms and conditions:

- The acquisition must be carried out through the Mexican Stock Exchange;
- The acquisition must be carried out at market price, unless a public tender offer or auction has been authorized by the Mexican Banking and Securities Commission;
- The acquisition must be carried out against the Company's stockholders' equity without adopting a reduction in capital stock, or against the Company's capital stock, and the shares so acquired will be held as treasury shares. No shareholder consent is required for such purchases;
- The amount of shares and the price paid in all share repurchases must be made public;
- The maximum amount to be spent in a fiscal year for the repurchase of shares must be determined by the Company's shareholders at their annual ordinary meeting;
- The Company may not be delinquent on payments due on any outstanding debt issued by the Company that is registered with the Mexican Securities Registry;
- Any acquisition of shares must be in conformity with the requirements of Article 54 of the Mexican Securities Market Law; and
- The Company must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which the Company's shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which the Company owns such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting.

Ownership of Capital Stock by Subsidiaries

The Company's subsidiaries may not, directly or indirectly, invest in the Company's shares, except for shares acquired as part of an employee stock option plan and in conformity with the Mexican Securities Market Law.

Redemption

In accordance with the Company's bylaws, shares representing the Company's capital stock are subject to redemption in connection with either (1) a reduction of capital stock, or (2) a redemption with retained earnings, which in either case must be approved by the Company's shareholders at an extraordinary meeting. In connection with a capital reduction, the redemption of shares must be made pro rata among the shareholders. In the case of a redemption with retained earnings, such redemption shall be conducted (a) by means of a tender offer conducted on the Mexican Stock Exchange at prevailing market prices, (b) pro rata among the shareholders, or (c) if the redemption is at a price different from the prevailing market price, shares to be redeemed shall be selected by lot.

Dissolution and Liquidation

In the event of the Company's dissolution, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up the Company's business and affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any liquidation proceeds.

Registration and Transfer

The Company's shares have been registered with the Mexican Securities Registry as required under the Mexican Securities Market Law and the regulations issued by the Mexican Banking and Securities Commission. Shares are evidenced by certificates issued in registered form, which are to be deposited with Indeval at all times. The Company's shareholders may only hold their shares in book-entry form through participants that have accounts with Indeval. Indeval is the holder of record in respect of all shares. Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and other entities authorized by the Mexican Banking and Securities Commission to be participants at Indeval. In accordance with Mexican law, only persons listed in the Company's stock registry and holders of certificates issued by Indeval or by Indeval participants will be recognized as the Company's shareholders. Such shareholders may exercise rights in respect of those shares at meetings of shareholders or otherwise. Transfers of shares must be registered through book entries on the records of Indeval.

Preemptive Rights

Under Mexican law and the Company's bylaws, the Company's shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if the Company issues additional shares of capital stock, the Company's shareholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Shareholders must exercise their preemptive rights within the time periods set forth by the Company's shareholders at the meeting approving the relevant issuance of additional shares. This period may not be less than 15 days following the publication of notice of the issuance in the Mexican Official Gazette and in a newspaper of general circulation in Mexico City.

Under Mexican law, shareholders cannot waive their preemptive rights in advance, and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share certificate. Preemptive rights will not apply to (1) shares issued by the Company in connection with mergers, (2) shares issued in connection with the conversion of convertible securities, the issuance of which was approved by the Company's shareholders, (3) shares issued in connection with the capitalization of items included in the Company's statement of financial position, (4) the resale by the Company of shares held in the Company's treasury as a result of repurchases of shares conducted by the Company on the Mexican Stock Exchange, and (5) shares to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which permits the non-applicability of preemptive rights in connection with public offerings by existing public companies, if the issuance of those shares was approved at a general shareholders' meeting.

Certain Minority Protections

Pursuant to the Mexican Securities Market Law and the Mexican Corporations Law, the Company's bylaws include a number of minority shareholder protections. These minority protections include provisions that allow holders of at least 10% of the Company's outstanding shares entitled to vote (including voting in a limited or restricted manner):

a. to request that a shareholders' meeting be called;

b. to request that resolutions, with respect to any matter on which they were not sufficiently informed, be postponed; and

c. to appoint or revoke the appointment of one member of the Company's board of directors and one alternate member of the Company's board of directors.

The minority protections include provisions that also allow holders of at least 20% of the Company's outstanding share capital to oppose and file a petition for a court order to suspend any resolution adopted at a shareholders' meeting, provided that (1) the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, (2) the challenged resolution violates Mexican law or the Company's bylaws, (3) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution, and (4) the opposing shareholders deliver a bond to the court to secure payment of any damages that the Company may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder. However, these provisions have seldom been invoked in Mexico, and, as a result, it is uncertain how a competent court may enforce them.

The minority protections include provisions that also allow holders of at least 5% of the Company's outstanding shares to initiate an action for civil liabilities against some or all of the Company's directors in a shareholder derivative suit for the Company's benefit, for violations of their duty of care or their duty of loyalty, in an amount equal to the damages or losses caused to us. Such actions have a five-year statute of limitations.

Anti-Takeover Protections

The Company has included anti-takeover protections in the Company's bylaws. Generally, these provisions require board approval for acquisitions of the Company's shares at thresholds that are different than the statutory tender offer rules set forth in the Mexican Securities Market Law.

Definitions

For purposes of these anti-takeover provisions only, the following terms shall have the following meanings:

"Shares" means the Company's shares of stock, regardless of class or series, as well as any certificate, security or instrument whose underlying assets are the Company's shares and which confers a right to or is convertible into the Company's shares, including any financial derivative instrument.

"Control," "controlling" or "controlled by" means: a person's (i) direct or indirect ownership, individually or together with other related persons, of a majority of the voting shares of common stock of a corporation, or any certificates or other instruments representing such shares; (ii) power or ability to appoint a majority of the members of the board of directors or the administrator of an entity, investment fund, trust or similar vehicle, company, corporation or other economic or business venture, whether directly or indirectly through the exercise of the voting rights conferred by such person's shares or interests, or through any agreement to the effect that a third party's shares or interests shall be voted in the same manner as such person's shares or interests; or (iii) power to determine, directly or indirectly, the policies and/or decisions of the management or the course of the business of an entity, trust or similar vehicle, company, corporation or other economic or business venture.

"20% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 20% or more of the Company's voting shares.

"40% Interest" means the individual or joint ownership, directly or indirectly through any corporation, trust or similar vehicle, entity, corporation or other economic or business venture, of 40% or more of the Company's voting shares.

"Related person" means any individual or entity, corporation, investment fund, trust or similar vehicle, company or other economic or business venture, or the spouse, companion or any relative by blood, marriage or adoption within four degrees, or any subsidiary or affiliate of any of the above, that (a) belongs to the same economic group as any person intending to acquire shares or is a subsidiary or an affiliate of such person, (b) is acting or has the power to act in concert with the person intending to acquire shares, or (c) has the power to influence the investment decisions of such person.

General

Subject to certain exceptions, the Company's bylaws provide that any person who, individually or together with other related persons, wishes to acquire the Company's shares or the beneficial ownership of the Company's shares, directly or indirectly, in one or more transactions, regardless of the time of each transaction or the percentage of shares maintained by such person individually or together with other related persons prior to the acquisition, that result in such person holding individually, or together with such other related persons, shares representing 10% or more of the Company's outstanding capital stock, must (1) obtain the prior written approval of the Company's board of directors before undertaking the transaction, and (2) where such acquisition would result in a 20% Interest, a 40% Interest or a change in the Company's control, fulfill additional requirements as set forth below.

The Company will not recognize the ownership of shares acquired without approval or in violation of the Company's anti-takeover provisions, nor will the Company record such shares in the Company's stock registry, even if the acquirer holds other shares of the Company's common stock. Furthermore, a person that is deemed to have acquired the Company's shares in violation of the Company's anti-takeover protections will not be able to vote such shares or exercise any corporate rights associated with them (other than dividend and other economic rights). In addition, a person that acquires shares in violation of the Company's bylaws is obligated to sell those shares through one or more transactions in the Mexican Stock Exchange within 90 days of the date on which such shares are acquired.

Board Approvals

A potential acquirer must obtain the prior approval of the Company's board before undertaking any of the transactions described above. To obtain such approval, the potential acquirer must submit to the Company's board a written authorization request that contains certain details about the transaction, the acquirer and the source of the funds. If the Company's board of directors does not approve the request in the manner and within the time periods provided in the Company's bylaws, the authorization request will be deemed to be denied.

Mandatory Tender Offers in Connection with Certain Acquisitions

If the Company's board of directors authorizes an acquisition of the Company's shares that results in the acquisition of a 20% interest but less than a 40% interest, regardless of such authorization the acquirer must make a cash tender offer for the greater of (1) the percentage of the Company's outstanding shares that it is expected to acquire, or (2) 10% of the Company's outstanding shares, provided that such acquisition would not result in a 40% interest or a change of control. In the event that the Company's board of directors authorizes an acquisition that results in a 40% interest or a change of control, regardless of such authorization the acquirer must make a cash tender offer for 100% of the Company's outstanding shares at a price which cannot be lower than any of the following: (i) the book value of the Company's shares as reported on the last quarterly income statement approved by the Company's board of directors; (ii) the highest closing price of the Company's shares on the Mexican Stock Exchange during any of the 365 days preceding the date of the board resolution approving the acquisition; or (iii) the highest price paid for any shares, at any time, by the acquirer. Furthermore, all shareholders must be paid the same price for shares tendered in connection with the offer. The mandatory tender offer provisions of the Company's bylaws generally are more stringent than similar provisions contained in the Mexican Securities Market Law. The Company believes the provisions of the Company's bylaws are more protective of minority shareholders than the current Mexican Securities Market Law.

Exceptions

Certain transactions are exempt from the anti-takeover provisions of the Company's bylaws, including, among others, direct or indirect acquisitions or transfers through inheritance, acquisitions or transfers by a person or persons controlling us, such as the Company's indirect controlling shareholder, Sempra Energy (including transfers resulting in a change of control of the person or persons controlling us), acquisitions or transfers by us, the Company's subsidiaries, the Company's affiliates or any trust created by the Company or any of the Company's subsidiaries, or acquisitions or transfers authorized by the Company's board of directors or at a meeting of the Company's shareholders.

Registration of Changes in The Company's Anti-Takeover Provisions

Any amendment to the Company's anti-takeover protections must be registered with the Public Registry of Commerce.

Cancellation of the Registration of The Company's Shares With the Mexican Securities Registry

In the event of cancellation of the registration of the Company's shares with the Mexican Securities Registry, whether at the Company's request or by resolution of the Mexican Banking and Securities Commission, the Company's controlling shareholders will be required to conduct a tender offer to purchase all the outstanding shares of the Company's capital stock that are owned by the Company's other shareholders. Under Mexican law and the Company's bylaws, the Company's controlling shareholders are those who own a majority of the Company's outstanding shares or have the power or ability to determine the outcome of actions requiring approval by the Company's shareholders during a shareholders' meeting, appoint or remove a majority of the members of the Company's board of directors, managers or other similar individuals, or determine, directly or indirectly, the course of the Company's management, strategies or principal policies.

Under Mexican law and the Company's bylaws, if after the tender offer is completed there are still outstanding shares held by the general public, the Company's controlling shareholders will be required to create a trust for at least six months, into which they will be required to contribute funds in an amount sufficient to purchase, at the same price as the offer price, all of the outstanding shares held by those members of the general public that did not participate in the offer.

The offer price will be the higher of: (i) the weighted average trading price of the Company's shares on the Mexican Stock Exchange during the 30-day period preceding the offer or (ii) the book value of the Company's shares in accordance with the most recent quarterly report submitted to the Mexican Banking and Securities Commission and the Mexican Stock Exchange. The voluntary cancellation of the registration of the Company's shares will be subject to (a) the prior authorization of the Mexican Banking and Securities Commission and (b) the authorization of the holders of no less than 95% of the Company's outstanding shares during a general extraordinary shareholders' meeting.

Additional Matters

Variable Capital

The Company is permitted to issue shares representing fixed capital and shares representing variable capital. The issuance of variable-capital shares, unlike the issuance of fixed capital shares, does not require an amendment of the Company's bylaws, although it does require a majority vote of the Company's shareholders. A holder of variable capital shares that wishes to effect a total or partial withdrawal of such shares is required to give the Company written notice of such circumstance. If a notice of withdrawal is received prior to the last quarter of the fiscal year, the withdrawal becomes effective at the end of the fiscal year in which the notice was given. Otherwise, the withdrawal becomes effective at the end of the following fiscal year.

Forfeiture of Shares

As required by Mexican law, the Company's bylaws provide that non-Mexican shareholders will be treated like Mexican citizens with respect to shares held by them, with respect to the Company's property rights, concessions, participations and interests, and with respect to rights and obligations derived from any agreement between the Company and the Mexican government. Non-Mexican shareholders will be deemed to have agreed not to invoke the protection of their own government with respect to such matters, and the breach of such deemed agreement may result in the forfeiture to the Mexican government of such interest or participation. Mexican law requires that this provision be included in the bylaws of all Mexican corporations unless the bylaws prohibit ownership of shares by non-Mexican persons.

Conflicts of Interest

Pursuant to the Mexican Corporations Law, none of the Company's shareholders may participate in any deliberation of, or vote on, any business transaction in which its interest conflicts with ours. Violation of this law may result in the shareholder being liable for damages, but only if the transaction would have not been approved without the shareholder's vote.

Appraisal Rights

Pursuant to the Mexican Corporations Law, if the Company's shareholders approve a change in the Company's corporate purpose, nationality or corporate form, any shareholder entitled to vote that voted against the approval of such matter will be entitled to withdraw its shares and receive the book value of such shares as set forth in the financial statements last approved by the Company's shareholders. This appraisal right may only be exercised within 15 days following the adjournment of the meeting at which the relevant change was approved.

e) Other Corporate Governance Practices

Board of Directors

The Company's board of directors must hold a meeting at least once every three months and may hold extraordinary meetings at any time it may deem appropriate. See "Board of Directors."

Code of Ethics: a personal responsibility

IEnova is the image of the behavior of its people, therefore each one of us has the personal and continuous responsibility to ensure the exact fulfillment of an appropriate behavior.

The Code of Ethics covers general areas of legal and ethical principles for IEnova. We are all responsible for:

- Comply with all national and international laws, internal policies and company procedures.
- Maintain appropriate ethical behavior.
- Be alert to situations that could result in illegal actions, or in violation of the Code of Ethics or the procedures that support it.
- Report suspicions or violations of the Code of Ethics.

IEnova adheres at all times to the provisions of: (i) Universal Declaration of Human Rights, ii) Convention of the United Nations (UN) against Corruption; (iii) Convention of the Organization for Economic Cooperation and Development (OECD) to Combat Bribery of Foreign Public Officials; (iv) US Foreign Corrupt Practice Act of 1977 (according to its reforms); (v) National Anti-corruption System and its applicable laws; (vi) Federal Law for the Prevention and Identification of Operations with Resources of Illegal Origin (Law against Money Laundering) of Mexico, and (vii) Federal Criminal Code of Mexico, hereinafter, "Anti-corruption Laws".

Therefore, IEnova requires that its employees complete the Corporate Ethics Training that includes, but is not limited to, the Anticorruption Laws mentioned above, when requested. They are expected to know and understand the meaning and requirements of the standards mentioned in the Code of Ethics, as well as their obligation to notify when they believe or suspect that there has been a violation of these or this Code.

Employees, regardless of their hierarchical level, who violate the Code of Ethics, the law or act in a manner contrary to current policies and procedures, will be subject to the corresponding disciplinary measures that, if they are classified as serious offenses according to law, could include the dismissal.

Employees who have additional staff are responsible for:

- Make sure that all their subordinates have full knowledge of the guidelines indicated here.
- To be an example in the fulfillment of laws and ethical norms, demonstrating integrity, honesty and respect in all its acts.
- Encourage an environment where employees have confidence to ask questions and report problems.
- Support employees who ask questions or comment on their concerns.

The precepts contained in this document are of general application for all employees and officers of the company without any distinction of position, position or title, so it will be understood that employees, officers, attorneys, managers and directors, including Directors and Members of the different IEnova Committees must comply at all times and conduct all their acts under the principles contained in this Code of Ethics.

Rules for Ethical Decision Making

Ethics Committee

To guide each employee in the application of the Code of Ethics, each section of the Code of Ethics booklet contains questions and answers that help clarify certain specific situations.

The Code of Ethics can not cover all situations that may arise in the course of our work. If there are doubts or new situations not expressly contemplated, ask yourself:

- Is it legal and adheres to company policies?
- Is it fair, appropriate and consistent with the ethical values of the company?
- Have I already talked with my direct boss about my doubts?

If the employee is still not comfortable with a situation, he or she can consult with the Corporate Ethics Direction or contact the help lines.

IEnova has a free and confidential telephone line and with the Corporate Ethics Direction.

Line of complaints 01-800-062-2107

Anyone can also direct their communications to the confidential e-mail: ienova@lineadedenuncia.com or on the website: lineadedenuncia.com/ienova.

Both communication alternatives are exclusively dedicated to answering questions related to compliance with the Code of Ethics, the National Anticorruption System in Mexico, Anti-Corruption Laws, Corporate Ethics Policy, other Corporate Ethics issues, as well as receiving complaints about possible violations of these.

The employee can also contact the Telephone Ethics and Compliance Line of our majority shareholder Sempra, free of charge and anonymously, at 01-800-241-5689 or via the internet by accessing the site https://iwf.tnwgrc.com/Sempra

Standards of Integrity

1. Safety
2. Customer relations-public safety
3. A workplace free from discrimination and harassment
4. A violence-free workplace
5. No intimidation in the workplace
6. No use of illegal substances and alcohol
7. Confidentiality and privacy
8. Environmental protection
9. Community activities
10. Anti-corruption and anti-bribery
11. Participation in policy
12. Fair competition
13. Government relations
14. Acquisition of goods and services
15. Regulatory compliance
16. Business gifts and gratuities
17. Share trading
18. Conflicts of interest

19. Intellectual property
20. Internal business controls
21. Financial information
22. Payments and undue collections
23. The Company's assets
24. Information management
25. Foreign Corrupt Practices Law (FCPA)

Sustainability

The Company's sustainability strategy, which encompasses the areas of financial, social and environmental sustainability, is aimed at creating value for ourselves, the Company's shareholders, customers and employees, and the communities to which the Company belongs.

The Company has characterized itself for its commitment to operating in strict compliance with the law and the regulations for the Company's industry, which has allowed it to earn and retain the confidence of the Company's various groups of constituents.

The Company's achievements in this area include the publication of the Sixth Sustainability Report (GRI Standards, 30 indicators audited by Deloitte, Communication on progress (COP) report to UN Global Compact and, from March, 2019 and for the fifth consecutive year, IEnova has been a party of the Mexican Stock Exchange's Sustainability Index. In addition and for the fifth consecutive year, the Company attained *Great Place to Work* certification, and was recognized as a *Socially Aware Company* by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía*). Likewise, during 2015, Fundación IEnova, A. C. was incorporated to support organizations and programs that contribute to the well-being of the communities with which the Company operates, and to preserve the environment. During 2018, through IEnova foundation, the Company granted donations to 12 organizations with 24 projects and two in-kind donations in twelve cities within ten states of Mexico.

These actions show IEnova's commitment with continuous improvement and with the implementation of high environmental operation, protection and preservation standards, working practices, corporate governance and social responsibility with the communities the Company operates in.

For further information on the Company's sustainability efforts, please see IEnova's 2018 Sustainability Report, available on May 31, 2019. www.ienova.com.mx

TRADING MARKET

a) Share Ownership Structure

Not applicable.

PERFORMANCE OF THE COMPANY'S SHARES ON THE MEXICAN STOCK EXCHANGE

b) Performance of The Company's Shares on the Mexican Stock Exchange

The Company's shares were first listed for trading on the Mexican Stock Exchange on March 27, 2013, under the symbol "IENOVA." Prior to that date, there had been no public market for the Company's shares.

On March 29, 2019, the closing price for the Company's shares on the Mexican Stock Exchange was Ps.78.01 per share. The following tables set forth the reported, high and low sales prices for the Company's shares on the Mexican Stock Exchange during the periods indicated. These prices constitute historical prices between financial intermediaries, do not include any commission and are not necessarily representative of prices in actual transactions. Since September 2, 2013, the Company's shares have been included in the Mexican Stock Exchange's Stock Price Quote Index (*Índice de Precios y Cotizaciones*).

Annual highs and lows:

Year	High	Low	Last	Average Trading Volume
2014	85.90	51.50	73.80	1,034,837
2015	77.78	69.04	92.12	1,139,929
2016	90.61	67.22	90.33	2,659,053
2017	106.96	83.60	96.45	1,946,066
2018	98.71	70.55	73.27	1,826,468

Source: IEnova, based on Bloomberg data. pesos per share

Quarterly highs and lows, last three years:

Year	Quarter	High	Low	Last	Average Trading Volume
2016	First	75.43	69.92	70.63	1,066,654
	Second	77.03	67.22	77.03	1,712,142
	Third	79.51	71.8	75.8	1,150,464
	Fourth	90.33	74.97	90.33	6,774,397
2017	First	93.01	83.60	89.22	2,268,024
	Second	97.13	85.07	96.77	2,019,100
	Third	102.54	93.42	101.96	1,575,750
	Fourth	106.96	95.98	96.45	1,951,393
2018	First	98.71	88.66	88.92	1,799,719
	Second	93.37	78.07	88.64	2,231,754
	Third	94.02	85.46	92.99	1,314,469
	Fourth	92.75	70.55	73.27	1,957,907

Source: IEnova, based on Bloomberg data. pesos per share

Monthly highs and lows, last six months:

Year	Month	High	Low	Last	Average Trading Volume
2018	October	92.75	79.63	79.63	1,590,580
	November	85.18	70.90	77.46	2,577,806
	December	77.94	70.55	73.27	1,710,799
2019	January	80.80	72.02	75.09	2,251,966
	February	76.85	69.93	74.13	1,734,605
	March	78.31	73.0	78.01	1,717,266

Source: IEnova, based on Bloomberg data. Pesos per share

According to the INDEVAL certificate, during April 2019, the Company had 188 shareholders of record. This number does not include those shareholders who hold their shares through either an intermediary or a trust. The Company's actual number of shareholders is greater than the Company's number of shareholders of records as it includes beneficial owners whose shares are held through intermediaries. The number of registered shareholders does not include either those shareholders who own shares through trusts.

c) Market Maker

On June 7, 2013, the Company announced that the Company had entered into a Market-making Services Agreement with Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México), or Credit Suisse Mexico. On December 7, 2015, the Company announced the renewal of such agreement for an additional six-month period. Pursuant to such agreement, Credit Suisse Mexico has agreed to submit purchase and sale bids for the Company's shares of stock on a firm basis and for its own account, in order to foster the increased liquidity of the Company's shares, establish price benchmarks and contribute to the continuing, stable performance of the Company's shares.

- Type of securities: Shares
- Trading symbol (issuer and series): IENOVA*
- ISIN/CUSIP No.: MX01IE060002

More specifically, Credit Suisse Mexico has agreed to submit purchase and sale bids totaling Ps.400,000, subject to a 0.5% spread. Since Credit Suisse Mexico began acting as the Company's market maker, the operation spread for the Company's shares has decreased to less than 0.5%, with an average daily trading volume of 1,602,803 shares.

On December 6, 2016, the Company announced the termination of the Market Maker Agreement with Credit Suisse México.

UNDERLYING ASSETS

Not applicable.

MANAGEMENT CERTIFICATION

April 30, 2019

We, Tania Ortiz Mena, Manuela Molina Peralta and René Buentello Carbonell, in our capacities of Chief Executive Officer, Chief Financial Officer, and General Counsel and Chief Compliance Officer of Infraestructura Energética Nova, S.A.B. de C.V, respectively, and in accordance with the provisions of Article 33, section I, paragraph (b) of the General Provisions Applicable to the Securities Issuers and Other Participants in the Securities Market, issued by the National Banking and Securities Commission, hereby declare the following:

The undersigned declare under oath that within the scope of our respective duties, we have prepared the information relating to Infraestructura Energética Nova, S.A.B. de C.V, contained in this Annual Report for the year ended December 31 2018, which, to the best of our knowledge and understanding, reasonably reflects the situation of the Company. We also declare that to the best of our knowledge, no information contained in this Annual Report has been omitted of falsified or may be misleading to investors.

_____

Tania Ortiz Mena
Chief Executive Officer

_____

Manuela Molina Peralta
Chief Financial Officer

_____

Rene Buentello Carbonell
General Counsel and Chief Compliance Officer

EXHIBIT

The English version is a translation of the original in Spanish and is for informational purposes only.
In case of a discrepancy, the Spanish original will prevail.

The undersigned declares, under protest of truth, that the consolidated financial statements of Infraestructura Energética Nova, S.A.B. de C.V. and Subsidiaries (the "Issuer") as of December 31, 2018, 2017 and 2016 and for the years that ended on those dates, contained in this annual report, were audited on February 19, 2019, in accordance with the International Auditing Standards.

Likewise, I hereby declare that I had read the annual report and, based on its reading and scope of the audit work done, I am not aware of relevant errors or inconsistencies in the information that is included and whose source comes from the audited consolidated financial statements, indicated in the previous paragraph, or of information that has been omitted or falsified in this annual report, or that it contains information that could mislead investors.

However, the undersigned was not contracted to perform, and did not perform, additional procedures in order to express an opinion regarding the other information contained in the annual report that does not come from the audited consolidated financial statements.

Sincerely,

C.P.A. Omar Esquivel Romero
Representative and External Auditor
Partner at Galaz, Yamazakí, Ruíz Urquiza, S.C.

The English version is a translation of the original in Spanish and is for informational purposes only. In case of a discrepancy, the Spanish original will prevail.

To the Board of Directors and Shareholders of

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

With reference to article 39 of the general dispositions applicable to issuers and other stock market participants supervised by the National Banking Commission (the "commission") that contract financial statements external audit services (the "dispositions"), in our character of external auditors of the consolidated financial statements for the year ended December 31, 2018 of Infraestructura Energética Nova, S.A.B. de C.V. (the "issuer"), we manifest:

I. We express our consent for the issuer to include in this annual report, the External Audit Report
II. That the financial information included in the annual report coincide with the audited financial information

Sincerely,

C.P.A. Omar Esquivel Romero
April 30, 2019

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

Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016 and Independent Auditor's Report Dated February 19, 2019

Index to the notes to the consolidated financial statements

Note		Pages
1	General information and relevant events	12
2	Significant accounting policies	27
3	Critical accounting judgments and key sources of estimation uncertainty	46
4	Cash and cash equivalents	49
5	Trade and other receivables, net	49
6	Transaction and balances with unconsolidated affiliates	51
7	Natural gas inventories	56
8	Finance lease receivables	56
9	Other assets	59
10	Investment in joint ventures	60
11	Business combinations and assets acquisition	66
12	Assets classified as held for sale and discontinued operations	74
13	Goodwill	75
14	Property, plant and equipment, net	76
15	Intangible assets	78
16	Trade and other payables	79
17	Employee benefits	79
18	Other financial liabilities	81
19	Other liabilities	81
20	Provisions	81
21	Carbon allowances	82
22	Short-term debt	83
23	Long-term debt	84
24	Financial instruments	86
25	Income taxes	97
26	Stockholders' equity	100
27	Declared dividends	101
28	Segment information	102
29	Revenue from contracts with customers	105
30	Interest income	109
31	Operating, administrative and other expenses	109
32	Other gains (losses), net	110
33	Finance costs	110
34	Depreciation and amortization	110
35	Basic and diluted earnings per share	110
36	Commitments	111
37	Contingencies	123
38	Application of new and revised International Financial Reporting Standards	125
39	Events after reporting date	130
40	Approval of Financial Statements	130
41	Registered offices	131

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Independent Auditors' Report to the Board of Directors and Stockholders of Infraestructura Energética Nova, S. A. B. de C. V. and its Subsidiaries

Opinion

We have audited the consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and its subsidiaries (the "Company" or "IEnova"), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, and the consolidated statements of profit, profit and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Infraestructura Energética Nova, S. A. B. de C. V. and its Subsidiaries as of December 31, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.

Deloitte se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Relevant new contracts and transactions analysis

As described in Note 1.2 of the consolidated financial statements, the Company entered into several relevant transactions during the year, some of them requiring the determination of the appropriate accounting that can have significant implications to current and future financial statements with respect to the recognition, valuation, presentation and disclosures of the particular transaction. International Financial Reporting Standards require Management to apply its judgement to define the accounting treatment with limited specific industry guidance provided. A typical analysis requires the entity to determine whether it needs to consolidate a project; whether the arrangement contains a lease, and if so, its classification as a finance or operating lease; whether the contract meets the own use exemption or the definition of a derivative (to which hedge accounting could be applied) or it contains embedded derivatives; or, whether, it should be accounted for under another model, such as a concession arrangement. Examples of relevant transactions include agreements such as: terminal services, power sales, concessions, purchase options, and acquisition of subsidiaries.

Our audit emphasizes on the internal control and performing detailed risk assessment procedures to each transaction to determine the relevant aspects of judgement to design tailored audit procedures. We also involved our technical accounting specialists to assist us in auditing these matters.

Goodwill impairment testing

As described in Note 13 to the consolidated financial statements, the Company maintains goodwill of $1,638 million, which originated mainly from the acquisitions of IEnova Pipelines and Ventika. Management performed its annual goodwill impairment testing during the fourth quarter which uses business and valuation assumptions that require judgement, including discount rates and long term projections of revenues and costs. The most relevant matters addressed in our audit are as follows:

- The reasonableness of discount rates
- The reasonableness of the fair value from different valuation techniques

Our audit procedures focused mainly on testing relevant controls and substantive procedures over relevant assumptions. We involved an internal valuation specialist to assist us in auditing these matters.

Other Information

Management is responsible for the other information. The other information comprises information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We do not report anything related to the other information.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Omar Esquivel Romero
Mexico City, Mexico
February 19, 2019

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

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	Notes	December 31, 2018	December 31, 2017	December 31, 2016
Current assets:				
Cash and cash equivalents	4, 24	$ 51,681	$ 37,208	$ 24,918
Short-term investments	24	83	1,081	80
Finance lease receivables	8, 24	9,809	8,126	7,155
Trade and other receivables, net	5, 24, 29	153,649	94,793	100,886
Due from unconsolidated affiliates	6, 24	45,043	24,600	12,976
Income taxes receivable	25	74,806	81,909	6,390
Natural gas inventories	7	3,516	7,196	6,083
Derivative financial instruments	24	9,474	6,130	6,913
Value added tax receivable		76,907	39,633	27,600
Carbon allowances	21	5,936	—	—
Other assets	9	9,695	10,327	9,289
Restricted cash	4, 24	23,342	55,820	51,363
Assets held for sale	12	—	148,190	191,287
Total current assets		463,941	515,013	444,940
Non-current assets:				
Due from unconsolidated affiliates	6, 24	646,297	493,887	104,352
Derivative financial instruments	24	8,146	1,935	1,127
Finance lease receivables	8, 24	932,375	942,184	950,311
Deferred income tax assets	25	80,853	97,334	89,688
Investment in joint ventures	10	608,708	523,102	125,355
Other assets	9	94,060	32,658	4,855
Property, plant and equipment, net	14, 28	4,086,914	3,729,456	3,614,085
Carbon allowances	21	15,499	—	—
Intangible assets	15	190,772	190,199	154,144
Goodwill	13	1,638,091	1,638,091	1,638,091
Restricted cash	4, 24	2,941	—	—
Total non-current assets		8,304,656	7,648,846	6,682,008
Total assets	28	$ 8,768,597	$ 8,163,859	$ 7,126,948

(Continued)

Liabilities and Stockholders' Equity	Notes	December 31, 2018	December 31, 2017	December 31, 2016
Current liabilities:				
Short-term debt	22, 24	$ 870,174	$ 262,760	$ 493,571
Trade and other payables	16, 24	99,757	72,638	94,566
Due to unconsolidated affiliates	6, 24	310,696	544,217	260,914
Income tax liabilities	25	63,044	3,384	13,322
Derivative financial instruments	24	10,943	41,726	10,310
Other financial liabilities	18, 24	24,720	10,372	5,877
Provisions	20	251	394	930
Other taxes payable		31,619	36,273	27,872
Carbon allowances	21	6,354	—	—
Other liabilities	19	28,073	19,631	28,861
Liabilities related to assets held for sale	12	—	62,522	35,451
Total current liabilities		1,445,631	1,053,917	971,674
Non-current liabilities:				
Long-term debt	23, 24	1,675,192	1,732,040	1,039,804
Due to unconsolidated affiliates	6, 24	75,161	73,510	3,080
Deferred income tax liabilities	25	566,892	551,614	489,607
Carbon allowances	21	14,826	—	—
Provisions	20	61,903	67,210	51,035
Derivative financial instruments	24	152,880	162,444	215,851
Employee benefits	17	7,643	6,537	5,586
Other non-current liabilities	19, 29	14,719	—	—
Total non-current liabilities		2,569,216	2,593,355	1,804,963
Total liabilities	28	4,014,847	3,647,272	2,776,637
Stockholders' equity:				
Common stock	26	963,272	963,272	963,272
Additional paid-in capital	26	2,351,801	2,351,801	2,351,801
Treasury shares	26	(7,190)	—	—
Accumulated other comprehensive loss		(104,105)	(114,556)	(126,658)
Retained earnings		1,536,662	1,316,070	1,161,896
Total equity attributable to owners of the Company		4,740,440	4,516,587	4,350,311
Non-controlling interests		13,310	—	—
Total stockholders' equity		4,753,750	4,516,587	4,350,311
Commitments and contingencies	36, 37	—	—	—
Events after the reporting date	39	—	—	—
Total stockholders' liabilities and equity		$ 8,768,597	$ 8,163,859	$ 7,126,948

See accompanying notes to the Consolidated Financial Statements.

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

Consolidated Statements of Profit

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

	Notes	Year ended December 31, 2018 (Notes 1, 12)	2017 (Notes 1, 12)	2016 (Notes 1, 12)
Revenues	24, 28, 29	$ 1,368,555	$ 1,222,905	$ 767,089
Cost of revenues		(385,791)	(331,846)	(270,885)
Operating, administrative and other expenses	31	(214,519)	(202,982)	(122,270)
Depreciation and amortization	14, 28, 34	(137,157)	(119,020)	(66,606)
Impairment of Termoelectrica de Mexicali, S. de R. L. de C. V. ("TDM")	12	—	(63,804)	(136,880)
Interest income	28, 30	27,449	22,808	6,294
Finance costs	28, 33	(122,879)	(73,501)	(21,092)
Other gains (losses), net	32	8	(40,900)	773
Remeasurement of equity method investment	11	—	—	673,071
Profit before income tax and share of profits of joint ventures	25	535,666	413,660	829,494
Income tax expense	25, 28	(143,064)	(104,163)	(117,345)
Share of profits of joint ventures, net of income tax	10, 28	37,984	44,677	42,841
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Attributable to:				
Owners of the company		430,592	354,174	754,990
Non-controlling interests		(6)	—	—
		$ 430,586	$ 354,174	$ 754,990
Earnings per share:				
Basic and diluted earnings per share	35	$ 0.28	$ 0.23	$ 0.61

See accompanying notes to the Consolidated Financial Statements.

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

Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

	Notes	Year ended December 31, 2018	2017	2016
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Items that will not be reclassified to profit or (loss):				
Actuarial gain on defined benefits plans	17	519	704	1,765
Deferred income tax related to actuarial gain on defined benefits plans		(156)	(211)	(530)
Total items that will not be reclassified to profit		363	493	1,235
Items that may be subsequently reclassified to profit or (loss):				
Gain (loss) on valuation of derivative financial instruments held for hedging purposes		7,688	4,586	(17,112)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes		(2,306)	(1,376)	5,133
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures		7,665	3,270	35,308
Deferred income tax on the gain on valuation of derivative financial instruments held for hedging purposes of joint ventures		(2,299)	(981)	(10,592)
Exchange differences on translation of foreign operations		(660)	6,110	(36,686)
Total items that may be subsequently reclassified to profit or (loss)		10,088	11,609	(23,949)
Other comprehensive income (loss) for the year		10,451	12,102	(22,714)
Total comprehensive income for the year		$ 441,037	$ 366,276	$ 732,276
Attributable to:				
Owners of the Company		441,043	366,276	732,276
Non-controlling interests		(6)	—	—
		$ 441,037	$ 366,276	$ 732,276

See accompanying notes to the Consolidated Financial Statements.

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

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Notes	Common Shares	Additional paid-in capital	Treasury shares	Other comprehensive loss	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Balance as of December 31, 2015		$ 762,949	$ 973,953	$ —	$ (103,944)	$ 546,906	$ 2,179,864	$ —	$ 2,179,864
Profit for the year	28, 35	—	—	—	—	754,990	754,990	—	754,990
Actuarial gain on defined benefit plans, net of income tax	17	—	—	—	1,235	—	1,235	—	1,235
Loss on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	—	(11,979)	—	(11,979)	—	(11,979)
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	—	24,716	—	24,716	—	24,716
Exchange differences on translation of foreign operations		—	—	—	(36,686)	—	(36,686)	—	(36,686)
Total comprehensive (loss) income for the year		—	—	—	(22,714)	754,990	732,276	—	732,276
Issuance of shares, net		200,323	1,377,848	—	—	—	1,578,171	—	1,578,171
Dividends paid	27	—	—	—	—	(140,000)	(140,000)	—	(140,000)
Balance as of December 31, 2016	26	$ 963,272	$ 2,351,801	$ —	$ (126,658)	$ 1,161,896	$ 4,350,311	$ —	$ 4,350,311
Profit for the year	28, 35	—	—	—	—	354,174	354,174	—	354,174
Actuarial gain on defined benefit plans, net of income tax	17	—	—	—	493	—	493	—	493
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	—	3,210	—	3,210	—	3,210
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	—	2,289	—	2,289	—	2,289
Exchange differences on translation of foreign operations		—	—	—	6,110	—	6,110	—	6,110
Total comprehensive income for the year		—	—	—	12,102	354,174	366,276	—	366,276
Dividends paid	27	—	—	—	—	(200,000)	(200,000)	—	(200,000)
Balance as of December 31, 2017	26	$ 963,272	$ 2,351,801	$ —	$ (114,556)	$ 1,316,070	$ 4,516,587	$ —	$ 4,516,587
Profit for the year	28, 35	—	—	—	—	430,592	430,592	(6)	430,586
Additional non-controlling interests arising on the acquisition of subsidiaries	11	—	—	—	—	—	—	13,094	13,094
Additional non-controlling interests relating to equity contributions		—	—	—	—	—	—	222	222
Actuarial gain on defined benefit plans, net of income tax	17	—	—	—	363	—	363	—	363
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		—	—	—	5,382	—	5,382	—	5,382
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		—	—	—	5,366	—	5,366	—	5,366
Exchange differences on translation of foreign operations		—	—	—	(660)	—	(660)	—	(660)
Repurchase of ordinary shares	26	—	—	(7,190)	—	—	(7,190)	—	(7,190)
Total comprehensive (loss) income for the year		—	—	(7,190)	10,451	430,592	433,853	13,310	447,163
Dividends paid	27	—	—	—	—	(210,000)	(210,000)	—	(210,000)
Balance as of December 31, 2018	26	$ 963,272	$ 2,351,801	$ (7,190)	$ (104,105)	$ 1,536,662	$ 4,740,440	$ 13,310	$ 4,753,750

See accompanying notes to the Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year ended December 31, 2018	2017	2016
Cash flows from operating activities:				
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Adjustments for:				
Income tax expense	25, 28	143,064	104,162	117,349
Share of profit of joint ventures, net of income tax	10, 28	(37,984)	(44,677)	(42,841)
Finance costs	28, 33	122,879	73,501	21,092
Interest income	28, 30	(27,449)	(22,808)	(6,294)
Loss (gain) on disposal of property, plant and equipment		13,708	7,877	(4,233)
Impairment (gain) loss recognized on trade receivables		(1)	(60)	46
Impairment of TDM		—	63,804	136,880
Remeasurement of intangible assets		—	—	(673,071)
Depreciation and amortization	14, 28, 34	137,157	119,020	66,606
Net foreign exchange loss (gain)		6,103	37,028	(4,652)
Net (gain) loss on valuation of derivative financial instruments		(3,754)	6,715	(21,001)
		784,309	698,736	344,871
Movements in working capital:				
(Increase) decrease in trade and other receivables, net		(55,452)	(2,368)	5,741
Decrease (increase) in natural gas inventories, net		3,680	(1,113)	(1,455)
(Increase) decrease in other assets, net		(14,220)	(4,204)	18,398
Increase (decrease) in trade and other payables, net		5,134	12,546	(45,302)
(Decrease) increase in provisions, net		(42,463)	(252)	16,249
Increase (decrease) in other liabilities, net		1,088	(2,098)	20,348
Cash generated from operations		682,076	701,247	358,850
Income taxes paid		(57,090)	(115,013)	(118,552)
Net cash provided by operating activities		624,986	586,234	240,298

(Continued)

	Notes	Year ended December 31, 2018	2017	2016
Cash flows from investing activities:				
Acquisition of subsidiaries and assets, net of cash acquired	11	(19,954)	(147,638)	(1,512,248)
Investment in joint ventures	10	(79,908)	(72,067)	(100,477)
Marine terminals counter-payments fee	1	(44,355)	(28,179)	—
Interest received		563	1,089	3,875
Acquisitions of property, plant and equipment	14	(392,073)	(224,816)	(315,810)
Loans granted to unconsolidated affiliates		(134,661)	(505,997)	685
Receipts of loans granted to unconsolidated affiliates		42,275	8,152	8,262
Short-term investments		998	(1,001)	19,988
Net cash used in investing activities		(627,115)	(970,457)	(1,895,725)
Cash flows from financing activities:				
Issuance of shares from follow on public offering		—	—	1,602,586
Shares issuance costs		—	—	(34,877)
Interest paid		(85,046)	(75,661)	(35,785)
Loans received from unconsolidated affiliates	6	70,000	377,926	1,240,000
Loans payments to unconsolidated affiliates	6	(312,032)	(46,702)	(1,369,600)
Payments of loans acquired through acquisition of subsidiary	11	—	(95,839)	—
Proceeds from bank financing		916,757	897,000	805,000
Payments related to bank financing		(304,395)	(1,257,531)	(459,463)
Proceeds from international debt offering	23	—	840,000	—
Debt issuance costs	23	—	(32,609)	(2,400)
Payments for repurchase of shares	26	(7,190)	—	—
Payment of debt securities ("CEBURES")	23	(102,069)	—	—
Dividends paid	27	(210,000)	(200,000)	(140,000)
Net cash (used in) provided by financing activities		(33,975)	406,584	1,605,461
(Decrease) increase in cash and cash equivalents		(36,104)	22,361	(49,966)
Increase (decrease) in restricted cash		29,537	(4,457)	46,849
Cash and cash equivalents at the beginning of the year		37,208	24,918	40,377
Effects of exchange rate changes on cash and cash equivalents		21,040	(5,614)	(12,342)
Cash and cash equivalents at the end of the year		$ 51,681	$ 37,208	$ 24,918

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016 (In thousands of U. S. Dollars, except where otherwise stated)

1. General information and relevant events

1.1. General information

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 addresses of their registered offices and principal places of business are disclosed in Note 41.

1.2. Relevant events

1.2.1. International Senior Notes Offering ("Senior Notes")

On December 7, 2017, IEnova obtained $840.0 million related to an international Senior Notes offering, the notes were offered and sold in a private placement to qualified institutional buyers in the U. S. pursuant to Rule 144A and outside the U. S. pursuant to Regulation S under the U. S. Securities Act of 1933, as amended (the "Securities Act").

The Senior Notes received an investment grade rating from Fitch Ratings (BBB+), Moody's Corporation ("Moody's") (Baa1) and Standard & Poor's Global Ratings ("S&P") (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

The Senior Notes may not be offered or sold in Mexico absent authorization by the Comision Nacional Bancaria y de Valores (the "CNBV") in accordance with the Ley del Mercado de Valores ("Mexican Securities Market Law") and all applicable regulations and the registration of the Senior Notes in the Registro Nacional de Valores ("National Securities Registry") maintained by the CNBV; or in the U. S. absent registration under the Securities Act or an exemption from registration therefrom.

On December 14, 2017, the Company entered into an international Senior Notes offering comprised of $300.0 million aggregate principal amount of the Company's 3.75 percent Senior Notes due 2028 and $540.0 million aggregate principal amount of the Company's 4.88 percent Senior Notes due 2048. (Please refer to Note 23.f.)

1.2.2. Global Offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of expenses and the corresponding taxes, was $29,941.0 million Mexican Pesos (approximately $1.6 billion of U.S. Dollars), the proceeds were used to repay a bridge loan to its affiliate Sempra Global ("SEG"), used to purchase the remaining 50.0 percent of IEnova Pipelines, S. de R. L de C. V. (" IEnova Pipelines") from Pemex Transformacion Industrial ("Pemex TRI"), to fund a portion of the acquisition of the Ventika wind-farm and to fund capital expenditures and general corporate purposes. (Please refer to Note 26.2.).

As a result of the Global Offering, the Company raised $30,400.0 million Mexican Pesos, and the issuance costs amounted to $659.5 million Mexican Pesos (Please refer to Note 26.2.).

The Company in order to complete the transaction mentioned in Note 1.2.8., entered into four forward exchange rate contracts with a maturity date in October 2016. The effect of these forwards was $3.4 million, and was recognized in the Consolidated Statement of Profit within other gains and losses.

1.2.3. CEBURES

On February 8, 2018, the Company made the repayment of its CEBURES public debt, of the second placement for an amount of $1,300.0 million of historical Mexican Pesos (Please refer to Note 23.a.).

For this debt, which was scheduled to mature in 2018, the Company entered into a derivative instrument contract and swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The Company received $1,300.0 million Mexican Pesos and paid $102.2 million U. S. Dollars. The repayment ended the hedging contract and CEBURES liability. (Please refer to Note 23.a.).

1.2.4. Credit agreements

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to $400.0 million with a syndicate group of four banks including, Banco Santander (Mexico), S. A. (“Santander”), Bank of Tokyo Mitsubishi ("Bank of Tokyo"), The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation (“SMBC”). The revolving credit has the following characteristics:

i. U.S. Dollar-denominated.
ii. Twelve-month term, with an option to extend up to five years.
iii. Financing to repay and cancel the previous loans contracted in 2014 with Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

On December 22, 2015, the Company entered into an amended agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de Mexico, S. A. (“Banamex”), SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders, (the “Credit Agreement”) whereby it agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $600.0 million from the previously authorized maximum in the amount of $400.0 million. (Please refer to Note 22.a.).

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, N. A. (“BofA”), BBVA Bancomer S. A. (“Bancomer”), Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer and Mizuho Bank, LTD (“Mizuho”), joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $1,170.0 million from the previously authorized maximum of $600.0 million. (Please refer to Note 22.a.).

1.2.5. 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 the Company contracts, IEnova together with a bank syndicate formed by Banamex, SMBC, Bancomer, Scotiabank Inverlat, S. A. ("Scotiabank"), Mizuho, BNP Paribas S. A. and 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 this agreement do not constitute IEnova's debt.

1.2.6. Revolving credit

On November 30, 2018, the Company entered into a revolving credit agreement with SEG for up to $320.0 million and maturity date on August 2020. The funds will be used for working capital, investments and other general corporate purposes.

1.2.7. Plan to market and sell TDM

In February 2016, the Company's management approved a plan to market and sell TDM, a 625-Megawatts ("MW") natural gas-fired power plant located in Mexicali, Baja California, Mexico.

1.2.7.1. TDM changes to plan of sale

On June 1, 2018, the management of the Company 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 12.).

1.2.8. Purchase agreement of remaining interest in IEnova Pipelines ("formerly Gasoductos de Chihuahua, S. de R. L. de C. V.") from Petroleos Mexicanos ("Pemex").

On July 31, 2015, the Company announced an agreement with Pemex to purchase Pemex's 50.0 percent equity interest in IEnova Pipelines in the amount of $1,325 million. The assets involved in the acquisition include three natural gas pipelines; one ethane pipeline; one liquid petroleum gas ("LPG") pipeline; and one LPG storage terminal. Under the terms of the agreement, Pemex and IEnova maintain their existing partnership in the Los Ramones II Norte pipeline project through the project holding company, Ductos y Energeticos del Norte, S. de R. L. de C. V. ("DEN").

On September 14, 2015, the Ordinary and Extraordinary Shareholders' Meeting approved the purchase of Pemex's 50 percent equity interest hold in IEnova Pipelines.

Resolution was obtained from the Comision Federal de Competencia Economica ("COFECE") in connection with the purchase agreement of the remaining interest in IEnova Pipelines from Pemex.

In December 2015, the COFECE rejected the transaction to purchase Pemex's interest in IEnova Pipelines as proposed. The parties restructured the transaction so that Pemex could proceed in accordance with the COFECE ruling.

In July 2016, IEnova announced it had reached an agreement with Pemex TRI to restructure the transaction to purchase Pemex's interest in IEnova Pipelines that was objected by the COFECE in December 2015. This agreement allowed i) Pemex TRI to satisfy the conditions imposed by the former COFECE in connection with its indirect participation in the assets known as Gasoducto San Fernando and LPG Ducto TDF and ii) IEnova to acquire Pemex TRI's participation in IEnova Pipelines once such conditions were satisfied.

On September 21, 2016, the COFECE authorized IEnova's acquisition of 50.0 percent of the equity of IEnova Pipelines ("IEnova Pipelines acquisition"), owned by Pemex TRI.

On September 26, 2016, IEnova Pipelines' acquisition was completed through IEnova Gasoductos Holding, S. de R. L. de C. V., ("IGH") a subsidiary of IEnova; therefore, the Company now holds 100 percent of IEnova Pipelines' shares. The final price of the transaction was $1,077.6 million, net of cash acquired. IEnova Pipelines joint venture with Pemex TRI remains after the acquisition, as originally contracted, each holding 50.0 percent of the shares in DEN. Through DEN, IEnova and Pemex TRI preserved their energy infrastructure joint venture of the construction of the Los Ramones Norte pipeline and the potentially development of new projects. Please refer to Note 1.2.9. related to financing transaction. Please refer to Note 1.2.11. for purchase agreement of DEN.

IEnova Pipelines has been included in the Company's Consolidated Financial Statements since the acquisition date (September 26, 2016). (Please refer to Note 11.1.).

1.2.9. Bridge loan for IEnova Pipelines acquisition

a. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $800.0 million with SEG. The loan had the following characteristics:

   i. U.S. Dollar-denominated.
   ii. Two-month term.
   iii. Used to finance the acquisition of IEnova Pipelines.

   In October 2016, the Company repaid this Bridge Loan.

b. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $350.0 million with Semco Holdco, S. de R. L. de C. V. ("SEMCO"). The loan had the following characteristics:

   i. U.S. Dollar-denominated.
   ii. Two-month term.
   iii. Used to finance the acquisition of IEnova Pipelines.

   In October 2016, SEMCO bought IEnova's shares from the common stock follow-on equity offering ("Global Offering"). SEMCO acquired 83,125,000 shares, at a value per share of $80.0 Mexican Pesos, the total amount of this transaction amounted to approximately $350.0 million, equivalent to the amount of this loan, therefore SEMCO relieved IEnova from the payment obligation of the loan as settlement for shares.

1.2.10. Purchase agreement of Ventika wind farm

On September 2, 2016, the Company agreed to acquire IEnova Ventika Holding, B. V. ("formerly Fisterra Energy Netherlands III, B. V."), IEnova Ventika Holding II, B. V. ("formerly Fisterra Energy Netherlands IV, B. V."), IEnova Ventika Mexico, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico III, S. de R. L. de C. V."), IEnova Ventika Mexico II, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico IV, S. de R. L. de C. V."), Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika"), a 252-MW wind generation facility, located in the state of Nuevo Leon, Mexico. Ventika was jointly developed by Fisterra Energy and Cementos Mexicanos, S. A. de C. V. The construction was completed in December 2015 and commercial operations started in April 2016.

This transaction was approved in an Extraordinary Shareholders' Meeting on October 7, 2016.

In December 2016, the COFECE authorized the acquisition of 100.0 percent of the equity interest in Ventika. The transaction was completed on December 14, 2016 through Controladora Sierra Juarez, S. de R. L. de C. V. ("CSJ") a subsidiary of IEnova. The final price of the transaction was $434.7 million, plus the assumption of outstanding debt of $485.3 million.

The loans fully mature in March 2032, and bear interest equal to a fixed base rate or London Interbank Offered Rate ("LIBOR") plus a spread of 3.03 percent to 3.93 percent, which varies over the term of the loans. To moderate the exposure to interest rate and associated cash flow variability, Ventika entered into floating-to-fixed interest rate swaps to have almost 92.0 percent of the full amount of the loans fixed.

Ventika has been included in the Consolidated Financial Statements since the acquisition date (December 14, 2016). (Please refer to Note 11.2.).

1.2.11. Purchase agreement of DEN

On October 6, 2017, the Company announced the agreement to acquire Pemex TRI's participation in DEN.

On November 10, 2017, the COFECE authorized the transaction. The purchase price paid was $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 million of existing debt, and the proportional amount of Los Ramones II Norte pipeline project financing of $289.0 million. This debt will not be consolidated on IEnova's Consolidated Financial Statements.

This acquisition increased IEnova's indirect participation in the Los Ramones II Norte pipeline from 25.0 percent to 50.0 percent through TAG Norte Holding, S. de R. L. de C. V. ("TAG").

Please refer to Notes 10.4., 10.5. and 11.3.

1.2.12. Formation of a fund to repurchase its own shares

On June 14, 2018, at the Company's Ordinary General Shareholders' Meeting, the shareholders decided to approve the creation of a fund to repurchase its own shares for a maximum amount of $250.0 million. 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. (Please refer to Note 26.).

1.2.13. Projects under development

a. *Marine pipeline*

In June 2016, Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG"), the joint venture formed between IEnova and TransCanada Corporation ("TransCanada"), whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest, resulted the winner of a bidding process and entered into a 25-year natural gas transportation service agreement with the Comision Federal de Electricidad ("CFE"), in connection with the bid issued by CFE for the South Texas–Tuxpan marine pipeline. IMG shall be responsible for the development, construction, and operation of the 42-inch pipeline, with a capacity of 2,600 Million Cubic Feet per Day ("MMCFPD") and a length of approximately 800 kilometers ("km"). The project will require an investment of approximately $2.4 billion, equivalent to $1.0 billion with IEnova's 40 percent share, and is expected to occur in early second quarter of 2019. (Please refer to Note 10.3.).

b. *La Rumorosa Solar Project and Tepezala II Solar Project*

On September 28, 2016, the Company was declared winner of two solar projects, bided by the Centro Nacional de Control de Energia ("CENACE"), La Rumorosa Solar Complex ("La Rumorosa") and Tepezala II Solar Complex ("Tepezala II") with an approximate capacity of 41 MW, located in Baja California, Mexico and 100 MW capacity, located in Aguascalientes, Mexico, respectively. The Tepezala II project will be developed and constructed in collaboration with Trina Solar Holdings, B. V. ("Trina Solar") who will have a 10 percent stake in this project.

The Company, through its subsidiaries will be responsible for the development, construction, operation and maintenance of these projects, including the permits, rights, financing and land acquisition. The estimated investment for these projects is $150.0 million and the beginning of commercial operations is expected to occur in the first quarter 2019 and second quarter of 2019, respectively.

Trina Solar has the option to sell, Trina Solar's ownership interest at the end of the construction period, before operations commence.

c. *Pima Solar Project*

In March 2017, the Company, through one of its subsidiaries executed a 20-year electric supply contract with Deacero, S. A. P. I. de C. V. to provide energy, clean energy certificates, and capacity from a new solar power plant located in Caborca, Sonora, Mexico.

The Company will be responsible for all aspects of the project implementation, including permitting, acquisition of land and rights of way, engineering, procurement, construction, financing, operations and maintenance.

The solar power plant will have a 110 MW capacity. The estimated investment for this project is $115.0 million. The beginning of commercial operations is expected to occur in the first quarter of 2019.

d. *Veracruz marine terminal and in-land terminal projects*

On July 12, 2017, the Company won the Administracion Portuaria Integral de Veracruz, S. A. de C. V. ("Veracruz API") bid for a 20-year transfer of its concession rights of an area to build and operate a marine terminal for the reception, storage and delivery of refined products.

According to the bidding basis, the Company made a onetime counter-payment offered for the right to build, use, leverage and benefit from the operation of the Veracruz marine terminal, in two installments, each equivalent to the 50 percent of the total amount, the first payment of $500.0 million Mexican Pesos ($28.2 million U. S. Dollars) was settled on August 1, 2017, prior to the execution of the concession agreement, as per bidding basis.

On August 3, 2017, the Company executed the 20-year concession agreement with the Veracruz API to develop, construct and operate the aforementioned marine terminal. The concession includes the transfer, during 2018, of the waterfront lot where the terminal will be built.

With an investment of approximately $170.0 million U.S. Dollars, the terminal will have a capacity of 2,100,000 barrels and is expected to begin operations in the fourth quarter of 2019.

Additionally, the Company will build and operate two storage terminals that will be strategically located in Puebla and Mexico City, and will have initial storage capacities of approximately 650,000 barrels, each one. With an investment of approximately $145.0 million U.S. Dollars, the two in-land terminals will start operations in the first quarter 2020.

The Company will be responsible for the implementation of the projects, including the obtaining of permits, engineering, procurement, construction, operation, maintenance, financing and providing services.

On July 29, 2017, the Company executed three long-term firm capacity contracts with Valero Marketing and Supply de Mexico, S. A. de C. V. ("Valero") for the receipt, storage capacity and delivery of hydrocarbons in the Veracruz marine terminal and for the two in-land terminals to be constructed in Puebla and Mexico City, for a 20-years term, the contracts are denominated in U.S. Dollars.

Valero plans to import refined products including gasoline, diesel and jet fuel, and store them at the Veracruz marine terminal. Locally, the products will be distributed by truck and transported to Puebla and Mexico City by rail.

After commercial operations, and subject to all relevant regulatory and corporate authorizations as well as the approval of the API of Veracruz, Valero will have the option to acquire 50 percent of the equity in each of the three terminals.

On January 8, 2018, ESJ Renovable III, S. de R. L. de C. V. ("ESJRIII") paid to the Veracruz API the remaining 50 percent of a counter-payment fee equivalent to the amount of $500.0

million Mexican Pesos ($25.9 million U. S. Dollars) for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, Mexico.

On November 22, 2018, ESJRIII signed a contract with the Veracruz API for land, which will be used exclusively for the construction and operation of a railway and its respective roads with term on June 11, 2038.

e. *Wind power generation facility*

On November 16, 2017, the Company through Energia Sierra Juarez 2 U. S., LLC, its wholly owned subsidiary, executed a 20-year power purchase agreement with San Diego Gas & Electric Company ("SDG&E"), a IEnova's unconsolidated affiliate. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California, Mexico. The project will have a capacity of 108 MW and will require an investment of approximately $150.0 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

f. *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 for the development, construction and operation of the project that will have a capacity of 125 MW, with an investment of approximately $130.0 million. The beginning of commercial operations is expected to occur in the second half of 2019. (Please refer to Note 11.4.).

g. *Marine terminal, 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 Km North of Ensenada, Baja California, Mexico. The terminal, with one million barrels of initial storage capacity will receive, store, and deliver hydrocarbons, primarily gasoline and diesel. The investment will be approximately $130.0 million. The terminal is expected to begin commercial operations in the fourth quarter of 2020.

On April 12, 2018, 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 Chevron subsidiary will have the right to acquire 20 percent of the terminal equity after commercial operations begin. The option does not meet the definition of an equity instrument under IAS 32 and is therefore within the scope of IFRS 9 as a financial instrument, the option is required to be initially recognized at fair value which upon the effective date of the agreement is minimal, as the exercise price of the option is a proxy for fair value, as such the Company will not record a fair value.

On March 14, 2018, the Company executed a second long-term contract for the storage and delivery of hydrocarbons with BP Estaciones y Servicios Energeticos, S. A de C. V. ("BP") , a BP P. L. C. ("BP LC") subsidiary, for the remaining 50 percent of the terminal's storage capacity.

h. *Marine terminal in Topolobampo, Sinaloa, Mexico*

On July 8, 2018, the Company was awarded by the Administracion Portuaria Integral de Topolobampo, S. A. de C. V. (“Topolobampo API”) with a 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.

In September and October 2018, the Company announced the execution of two long-term, U. S. Dollar-denominated contracts with subsidiaries of Chevron and Marathon Petroleum Corporation (“Marathon”) for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal, for the receipt, storage and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50 percent of the terminal’s initial one million barrels of storage capacity. Additionally, another subsidiary of Chevron will have the right to acquire up to 25 percent of the equity of the terminal after commercial operations begin. The option does not meet the definition of an equity instrument under IAS 32 and is therefore within the scope of IFRS 9 as a financial instrument, the option is required to be initially recognized at fair value which upon the effective date of the agreement is minimal, as the exercise price of the option is a proxy for fair value, as such the Company will not record a fair value.

According to the bidding basis, the Company is committed to make a onetime counter-payment offered for the right to build, use, leverage and benefit from the operation of the Topolobampo marine terminal, payable in two installments, each equivalent to 50 percent of the total amount. The first payment of $350.5 million Mexican Pesos ($18.4 million U. S. Dollars) was made in July 2018.

i. *Marine terminal in Manzanillo, Colima, Mexico*

On September 26, 2018, the Company executed a long-term contract with Trafigura Mexico S.A. de C. V. ("Trafigura"), for 740 thousand barrels, equivalent to 50 percent of the terminal’s storage capacity.

On September 28, 2018, the Company announced a project to develop, build and operate a marine terminal for the receipt, storage and delivery of refined products, primarily gasoline and diesel, that will be located in Manzanillo, Colima, Mexico. In its initial stage, the terminal is expected to have a storage capacity of 1.48 million barrels. The project’s estimated investment is approximately $200.0 million, and the Company anticipates, subject to the timing of issuance of the remaining permits, the start of commercial operations in the fourth quarter of 2020.

As part of the agreements, the Company also acquired 51 percent of the equity of ICM Ventures Holding B. V. ("ICM"), owner of the land where the project will be built. Affiliates of Trafigura retained 49 percent of the equity interest in the project. (Please refer to Note 11.6.).

j. *Natural gas liquefaction project*

On November 7, 2018, the Company announced, together with Sempra LNG & Midstream, the signature of three agreements with affiliated companies of Total S.A., Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. for the full capacity of phase 1 of the Energia Costa Azul, S. de R.L. de C.V. (“ECA”) liquefied natural gas project located in Ensenada, Baja California, Mexico.

The project’s phase 1 is a single-train liquefaction facility to be located adjacent to the existing receipt terminal and is expected to produce approximately 2.4 million tonnes of liquefied natural gas ("LNG") per annum.

The three agreements for the phase 1 contemplate the parties negotiating and finalizing definitive 20-year liquefied natural gas sales-and-purchase agreements. A final investment decision for this project is targeted in late 2019 with potential first LNG deliveries in 2023.

k. *Power purchase agreement*

On December 17, 2018, the Company, through one of its subsidiaries, executed a 15-year electric supply contract with Compañia Minera Autlan, S.A.B. de C.V., ("Autlan") to provide energy for 1,175.0 MW from the Company's portfolio of solar generation project's.

The beginning of commercial operations is expected to occur in the fourth quarter of 2019.

1.2.14. Other matters

a. *Energy Reforms*

On December 20, 2013, Mexico's president enacted constitutional reform with respect to laws governing the energy sector, which was approved by the national congress and the majority of state congresses. The Reform modifies Articles 25, 27 and 28 of the Mexican Constitution, allowing for private investment in the following areas: exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution of petroleum products and power transmission and distribution. On August 11, 2014, the secondary legislation derived from the reform was enacted and on October 31, 2014, its most relevant regulations were published in the Federal Official Gazette. 2015 and 2016 witnessed the implementation of the Reform since particular regulation (General Administrative Procedures) regarding natural gas, electricity, renewables and liquids were issued by the Energy Regulatory Commission ("CRE"). The Centro Nacional de Control del Gas Natural ("CENAGAS") and CENACE started functioning as the Sistema de Transporte y Almacenamiento Nacional Integrado de Gas Natural ("SISTRANGAS") and National Electrical System, Pemex and CFE had important corporate restructures.

b. *Credit Ratings*

On November 30, 2017, S&P gave the Company a global corporate credit rating of BBB with a stable outlook, and Fitch Ratings gave IEnova long-term foreign and local currency issuer default ratings of BBB+ with a stable outlook.

On November 19, 2018, Fitch Raitings confirmed the credit rating of BBB granted in 2017. S&P Global Ratings affirmed IEnova's global scale corporate credit rating of BBB and revised its global outlook from stable to negative because of similar action on Sempra Energy. As a result, IEnova's local credit rating changed from AAA to AA+.

1.3. Activities

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. (Please refer to Note 28.).

The Gas segment develops, owns and operates, or holds interests in, natural gas, LPG, ethane pipelines, storage facilities for LNG, and LPG, transportation, distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Chiapas, San Luis Potosi, Tabasco, Veracruz, Nuevo 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 solar projects located in Baja California, Aguascalientes, Sonora and Chihuahua, 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 land terminals for the reception, storage and delivery of refined products, located in Veracruz, Mexico City, Puebla, Baja California, Sinaloa and Colima, 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 summer and winter. In the case of the Power segment, the demand for power distribution service is higher during months with hot weather.

1.3.1. Gas segment

The Company's subsidiaries included in this reportable segment are:

a. Ecogas Mexico, S. de R. L. de C. V. ("ECO") is engaged in the distribution and sale of natural gas for industrial, residential and commercial use in three local distribution zones: Mexicali (serving the city of Mexicali, Baja California), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtemoc and Anahuac) and La Laguna-Durango (serving the cities of Torreon, Gomez Palacio, Lerdo and Durango), with pipelines of approximately 3,925 km in length.

   During 1996, 1997 and 1999, the CRE, granted ECO the first natural gas distribution permits for the local distribution zones of Mexicali, Baja California, Chihuahua, Chihuahua and La Laguna-Durango, under which ECO receives, transports, delivers and sells natural gas through a pipeline system.

   In May 2009, the CRE approved the third five-year plan to ECO for the local distribution zones of Chihuahua, Chihuahua and Mexicali, Baja California, and in June 2010 for the local distribution zone of La Laguna-Durango. Additionally, in 2016, the CRE authorized an adjustment to the authorized tariffs to be applied in the five-year plan for the local distribution zones of Chihuahua, Chihuahua and La Laguna-Durango and in 2018 an actualization to tariffs related to inflationary effects. The five-year plans do not include commitments regarding the minimum number of customers. As of December 31, 2018, 2017 and 2016, ECO had over 122,000, 120,000 and 119,000 customers, respectively.

b. Servicios DGN de Chihuahua, S. A. de C. V. ("SDGN") provides administrative, and operational services to other affiliates of the group.

c. IEnova Gasoductos Mexico, S. de R. L. de C. V. ("IGM") is engaged in the acquisition and subscription of any kind of participation in the capital stock of a variety of companies; its subsidiaries are engaged in the compression, storage and transportation of natural gas and LPG as well as in rendering all kind of services related to such activities, including the coordination, consulting and supervision of construction and development of energy infrastructure projects.

   It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

   In 2001, IGM entered into an agreement with Pemex TRI to provide natural gas compression services for a 20-year period. The term of the agreement may be extended up to five additional years by mutual agreement between IGM and Pemex TRI.

d. Gasoductos de Aguaprieta, S. de R. L de C. V. (“GAP”), a subsidiary of IEnova Gasoductos Mexico, was incorporated on July 4, 2001 and commenced operations on November 20, 2002. GAP is primarily engaged in the transportation of natural gas.

On July 19, 2002, GAP obtained its natural gas transportation permit from the CRE. The term of the permit is for 30 years and is renewable every 15 years.

On June 28, 2002, GAP entered into a 25-year gas transportation agreement with EPEMM, a related party until April 2010. The pipeline starts at the border of Arizona, U. S., and extends to the power plant called "Naco-Nogales", which is owned by Power and Energy Naco Nogales, S. A. de C. V., located in Agua Prieta, Sonora, Mexico.

Sonora pipeline: In October 2012, GAP was awarded by the CFE with two contracts to build and operate an approximately 835 km natural gas pipeline network connecting the Northwestern Mexican states of Sonora and Sinaloa (“Northwest gas pipeline”, also known as the “Sonora Pipeline”) to the U.S. interstate pipeline.

The Sonora pipeline is comprised of two segments; the first one (Sasabe – Guaymas), has an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one (Guaymas – El Oro), has an approximate length of 330 km, and 30-inch pipeline with 510 MMCFPD of transportation capacity and started commercial operation on May 19, 2017.

On August 18, 2014, CFE granted a compliance certification for the Sasabe – Puerto Libertad segment construction. The first 220 km, of the first segment were put into operation in the fourth quarter of 2014. The second 285 km of the first segment (Puerto Libertad – Guaymas), this segment started commercial operation in the third quarter of 2015.

The capacity of the Sonora pipeline is contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

Ojinaga - El Encino pipeline: In December 2014, GAP, entered into the Ojinaga pipeline natural gas transportation services agreement with the CFE, which has a term of 25 years. The CFE contracted 100 percent of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion Cubic Feet Per Day ("CFPD"). The 42-inch pipeline, with a length of approximately 220 km. This segment started commercial operation on June 30, 2017.

San Isidro - Samalayuca pipeline: During 2015, the Company, through its subsidiary GAP, was declared winner of the CFE tender for a natural gas transportation contract through a pipeline from San Isidro to Samalayuca in the State of Chihuahua. Such project consists of a header facility with a capacity of 3 billion CFPD and a 23 km pipeline with a capacity of 1,135 MMCFPD of natural gas. The system supplies natural gas to the Norte III Combined Cycle Power Plant and interconnect with the following systems: Gasoductos de Chihuahua, Tarahumara Pipeline and the Samalayuca-Sasabe pipeline. This segment started commercial operation on March 31, 2017. The contract maturity is 25 years.

El Empalme pipeline branch: In May 2016, IEnova entered into a natural gas transportation service agreement with CFE for a 21 year term, denominated in U.S. Dollars, for 100 percent of the transportation capacity of the Ramal Empalme pipeline, equal to 226 MMCFPD of natural gas. The 20 km pipeline branch. This segment started commercial operation on June 24, 2017.

Gasoducto Rosarito, (“GRO”) renders services of transportation of natural gas, providing the energy requirements of Baja California, Mexico. GRO operates the Gasoducto system comprised of three natural gas pipelines (*Rosarito Mainline, LNG Spur and Yuma Lateral)* and two 32,500 horse power (“HP”) compression stations located in Baja California, Mexico. The total length of GRO system is approximately 302 km. The system begins at the interconnection with the El Paso Natural Gas Co. pipeline near Ehrenberg, Arizona, U. S. (“North Baja Pipeline”), and ends in southern Tijuana, Baja California at the interconnection

with the Transportadora de Gas Natural de Baja California, ("TGN"), pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones, Baja California with the North Baja Pipeline and travels through Mexicali and Tecate, Baja California ending at the interconnection with TGN. These three pipelines operate under one transportation permit issued by the CRE.

Rosarito Mainline: This system was originally placed in service in August 2002 to supply natural gas from the U.S. to several power plants and industrial customers in the Baja California, Mexico market. This system is a 30-inch diameter pipeline with a length of approximately 225 km and a designed transportation capacity of 534 MMCFPD.

LNG Spur: This system was completed in May 2008 and transports natural gas to the Rosarito Mainline for delivery to power plants to the Baja California market. This system is a 42-inch diameter pipeline with a length of approximately 72 km and a designed transportation capacity of 2,600 MMCFPD.

Yuma Lateral: This system was the latest addition to the GRO transportation system and was placed in service in March 2010 to transport natural gas to the Arizona border. This system is a 12-inch diameter pipeline with a length of approximately 5 km and a designed transportation capacity of 190 MMCFPD.

Effective August 1, 2017, GRO was merged with and into GAP which is the surviving entity in the merger.

TGN is engaged in the transportation of natural gas in accordance with a permit issued by the CRE, through a 45 Km, 30-inch pipeline with a designed transportation capacity of 940 MMCFPD as permitted by the CRE. TGN interconnects with the GRO pipeline system in the Tijuana, Baja California, Mexico, area and extends north to interconnect with the SDG&E, system at the Otay Mesa International border and southwest to the CFE's 1,300MW Presidente Juarez Power Plant in Rosarito, Baja California, Mexico. The TGN pipeline system was placed in service in June 2000. A 19 km expansion to the TGN system began operations in May 2008.

Effective August 1, 2017, TGN was merged with and into GAP which is the surviving entity in the merger.

e. IGH is engaged in the acquisition and subscription of any participation in the share capital of various companies.

f. ECA, owns and operates an LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, Mexico.

During 2007, ECA obtained all necessary operating permits from Mexican regulatory agencies and operations commenced in May 2008.

In December 2009, ECA completed the construction of a nitrogen injection facility to allow customers to deliver LNG with a greater range of gross heating value. The nitrogen injection facility produces nitrogen that can be mixed with natural gas when it is necessary to lower the heating content to meet pipeline gas quality standards in Mexico and the U. S.

ECA entered into two 20-year firm storage service agreements with third independent parties for the 50 percent of the total storage capacity of the LNG Terminal. The agreements commenced in 2009.

g. IEnova Marketing, S. de R. L. de C. V. ("IEnova Marketing") provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova Marketing began operations jointly with ECA. Up to that date, the activities of IEnova Marketing were primarily focused on obtaining necessary permits to operate.

In November 2009, IEnova Marketing entered into an agreement with Sempra LNG International, LLC ("SLNGI"), whereby SLNGI agreed to deliver and sell LNG cargoes to IEnova Marketing from startup date of the LNG Terminal. Accordingly, IEnova Marketing entered into transportation and storage capacity service agreements to commercialize the LNG.

Thereafter, on January 1, 2013, SLNGI and IEnova Marketing entered into an LNG sale and purchase, transportation and supply agreement expiring on August 20, 2029. The minimum annual quantity committed for delivery is 188 million British Thermal Units ("MMBtus"). Under the terms of the agreement, SLNGI will be responsible for the transportation to the receiving terminal of all quantities of LNG sold and delivered from the delivery point to the receiving terminal and, IEnova Marketing will take LNG in order to meet its purchase commitments.

As of February 28, 2018, all end users that purchase natural gas and whose maximum annual consumption is greater than 5,000 Gigajoules ("GJ") must resort to licensees marketers for the supply thereof, said licensees marketers must have a supply issued by the CRE. During the period from January to March 2018, IEnova Marketing signed 93 natural gas purchase agreements with third parties which are located in Mexicali, Chihuahua, Torreon and Durango. The majority of the customers were previously consumers from ECO. (Please refer to Note 1.3.1.a.)

As of December 31,2018, IEnova Marketing has a total of 147 new customers derived from the change regulation issued by the CRE.

h. IEnova Pipelines is engaged in providing natural gas and LPG transportation services through Gasoductos de Tamaulipas, S de R. L. de C. V. ("GdT"), Gasoductos del Noreste, S. de R. L. de C. V. ("GdN") and TDF, S. de R. L. de C. V. ("TDF"), respectively, it also stores gas for the supply of LPG, through Transportadora del Norte SH, S. de R. L. de C. V. ("TdN", TDF's holding company). These activities are regulated by the CRE. IEnova Pipelines is also engaged as well in the ethane gas transportation service through Gasoductos del Sureste, S. de R. L. de C. V. ("GdS").

IEnova Pipelines has to follow the rulings authorized by the CRE. Those contain among other things, general service provision conditions for the service supply, tariff limits, the approved maximum revenues and the route followed by the gas pipeline proposed by the companies. The construction program and established investments in each permit must have been developed by IEnova Pipelines. In addition, the rulings require that a review of the maximum revenue be performed every five years to make any adjustments required regarding revenue and the related tariffs.

GdT - San Fernando pipeline: a fully bi-directional system that is comprised of a 36-inch diameter pipeline with an approximate length of 114 km and a capacity of 1,460 MMCFPD and two compression stations with a total of 95,670 HP. The pipeline extends from the El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas. CENAGAS, as transferee of Pemex TRI, is the sole customer of the San Fernando pipeline and also purchases the system's unused compression capacity on an as-needed basis pursuant to an interruptible transportation services agreement. The services agreement with CENAGAS has an initial term of 20 years beginning in 2003, but is extendable for a five-year period at the customer's option.

IEnova Pipelines - Samalayuca pipeline: a 24-inch diameter pipeline with an approximate length of 37 km and a capacity of 400 MMCFPD. The Samalayuca pipeline, which began operations in 1997, was the first privately-owned natural gas pipeline in Mexico. The Samalayuca pipeline extends from Ejido San Isidro, Chihuahua, to CFE's Samalayuca power plant and interconnects with a separate, 16-inch diameter pipeline owned by Pemex TRI that extends from Ciudad Juarez to Chihuahua. IEnova Pipelines has entered into long-term transportation service agreements with the Samalayuca pipeline's customers, which have 50 percent of the system's design capacity contracted on a firm basis.

IEnova Pipelines - Gloria a Dios compression station: a 14,300 HP compressor with a capacity of 60 MMCFPD. It is installed at the interconnection point of the Samalayuca pipeline and Pemex TRI's Ciudad Juarez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. CFE, which is the station's sole customer, has contracted 100 percent of the station's capacity on a firm basis through 2021, at the rates established by the CRE, pursuant to a transportation and compression services agreement.

Under this agreement, the Gloria a Dios compression station provides compression services for the Chihuahua II power plant, transports natural gas from an interconnection between Kinder Morgan's pipeline system and the Samalayuca pipeline at the Mexico–U.S. border, and delivers the compressed gas to the interconnection point of the Samalayuca pipeline and Pemex TRI's pipeline system.

TDF - LPG pipeline: a system comprised of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Barrels per day ("Bbld") of LPG, a pumping station located near the pipeline's point of delivery, and a reception facility that includes two storage spheres with a combined storage capacity of 40,000 Bbld.

The TDF's LPG pipeline, which was the first private LPG pipeline in Mexico, extends from Pemex TRI's Burgos LPG production area in the State of Tamaulipas to a delivery facility near Monterrey, Nuevo Leon. The TDF's LPG pipeline has in place a firm transportation services agreement with Pemex TRI, which expires in 2027.

TdN - Guadalajara LPG terminal: in 2013 TdN completed the construction of an LPG storage facility with a capacity of 80,000 Bbld near Guadalajara, Jalisco. This facility consists of four storage spheres, each with a capacity of approximately 20,000 Bbld, ten loading bays, and an interconnection with a separate LPG pipeline system that is owned by Pemex TRI. The Company has entered into several 15-year storage service agreements with Pemex TRI, pursuant to which it has contracted 100 percent of the terminal's capacity through 2028.

GdN - Los Ramones I pipeline: the system is comprised of a 48-inch diameter pipeline with an approximate length of 116 km and two compression stations with a total of 123,000 HP. The Los Ramones I pipeline transports natural gas from northern Tamaulipas, near the Mexico-U.S. border, to the interconnection point with the Los Ramones II Norte pipeline and Mexico's national pipeline system in Los Ramones, Nuevo Leon. CENAGAS, as transferee of Pemex TRI, is the sole customer of this facility under a 25-year firm transportation services agreement.

GdS - Ethane pipeline: an approximately 224 km system comprised of three segments. The first segment is a 20-inch diameter pipeline with a transportation capacity of approximately 52 MMCFPD (0.6 MMThd). The second segment is a 16/24-inch diameter pipeline with a transportation capacity of approximately 100 MMCFPD (1.8 MMThd). The third segment is a 20-inch diameter pipeline with a transportation capacity of approximately 106,000 Bbld (1.9 MMThd). The Ethane pipeline transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas, and Veracruz to the Ethylene XXI ethylene and polyethylene polymerization plant in the State of Veracruz. Pemex TRI, the sole customer of this facility, has contracted 100 percent of its capacity for a period of twenty one years under a purchase agreement on a take-or-pay basis. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

i. DEN provides operation and maintenance services to the Los Ramones II Norte pipeline system under a 25-year term agreement, starting in February 2016, the commercial operations date DEN owned 50 percent of TAG, which owned 99.99 percent of TAG Pipelines Norte, S. de R. L. de C. V. ("TAG Pipelines Norte"), under which the Los Ramones II Norte pipeline was built. On November 15, 2017, IEnova completed the acquisition of Pemex TRI 50 percent interest in DEN, through this acquisition IEnova increased its ownership interest in TAG from 25 percent to 50 percent. DEN became a wholly owned, consolidated subsidiary of IEnova. (Please refer to Note 11.3.).

1.3.2. Power segment

The Company's subsidiaries included in this reportable segment are:

a. TDM, a 625-MW natural-gas-fired, combined-cycle power generation facility located in the city of Mexicali, Baja California, is engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate and export electricity.

   On January 1, 2013 (with an effective date of January 1, 2012), Sempra Generation, LLC. ("SGEN") and TDM entered into a new commercial agreement, for which TDM delivers all of its power output directly to the California's Independent System Operator power grid ("CAISO") in the U. S. at the Mexico border, and SGEN provides marketing, scheduling and dispatch services for TDM.

   On December 2016, this contract was assigned to SGPM. In April 2018, the Company signed an addendum to the contract where the payment for the sale of electricity was eliminated.

b. In October 2013, ESJ began the construction of the 155 MW first phase of the wind generation project, which is fully contracted by SDG&E and started operations in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the ESJ wind project entered into a $240.0 million loan agreement to finance the construction project. The credit facilities mature on June 30, 2033.

   The loan agreement also provides for a $31.7 million letter of credit facility. ESJ also entered into a separate Mexican Peso denominated credit facility for up to $35.0 million U.S. Dollar equivalent to fund the VAT of the project. On December 23, 2015, ESJ repaid and canceled the total credit facility related to VAT. (Please refer to Note 10.2.).

c. In December 2016, the Company acquired 100 percent of the equity interests of Ventika's wind farm, located in the State of Nuevo Leon, approximately 56 km from the U.S. border. It is powered by 84 turbines, provides an aggregate of up to 252 MW of generating capacity, and is connected to CFE's transmission line. Ventika's location has one of the strongest wind resources in the country. It started operations in April 2016, and substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar-denominated, energy supply agreements.

1.3.3. Corporate segment

The Corporate Segment holds interests in the transportation, storage, distribution, and regassification, holds interest and is developing projects for power generation facilities in Mexico. The Company develops marine and in-land terminals for the reception, storage and delivery of refined products. Based on the significant investment and impact on the Liquids Terminals, the chief decision makers have decided to reclassify retrospectively the amounts as of December 31, 2017, included from Liquid Terminals in to the Corporate segment to the Gas segment, considering more appropriate to include operations and assets to this segment. The amounts of December 31, 2016, has not been restated as the investment and operation on terminals began during 2017. (Please refer to Note 28.).

a. IEnova Holdco, S. de R.L. de C.V. (formerly known as Sempra Servicios Energeticos, S. de R. L. de C. V.) is a holding company that invests in affiliated companies.

b. Fundacion IEnova, A. C., was established as a non-profit organization.

2. Significant accounting policies

2.1. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2. Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments, and assets and liabilities recognized upon business combinations that are measured at revalued amounts of fair values at the end of reporting period, as explained in the accounting policies below. (Please refer to Note 11.).

a. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b. *Fair value*

Fair value ("FV") is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, *Leases* and measurement that have some similarities for fair value but are not fair value, such as net realizable value in IAS 2, *Inventories* or value in use in IAS 36, *Impairment of assets.*

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

i. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
ii. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
iii. Level 3 inputs are unobservable inputs for the asset or liability.

Comparative information

The Consolidated Financial Statements provide comparative information in respect of the previous period. In addition, the Company presents an additional information at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the Financial Statements. A additional information for the Segment disclosure as of December 31, 2017, is presented in these Consolidated Financial Statements due to the retrospective reclassification. (Please refer to Note 28.).

For cash flow reporting purposes, balances restricted cash now form part of the cash and cash equivalents. Accordingly, changes in restricted cash in 2017 and 2016 are no longer reported as cash flows from investing activities.

2.3. Consolidation of Financial Statements

2.3.1. Basis of consolidation

The Consolidated Financial Statements of IEnova incorporate the Financial Statements of all entities where it maintains control (its subsidiaries). Control is achieved when the Company:

i. Has power over the investee;
ii. Is exposed, or has rights, to variable returns from its involvement with the investee; and
iii. Has the ability to use its power to affect its returns.

The Company reassesses whether or not controls an investee if facts and circumstances indicate that there are changes to one or more of the three control elements that were listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

i. The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
ii. Potential voting rights held by the Company, other vote holders or other parties;
iii. Rights arising from other contractual arrangements; and
iv. Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit and Other Comprehensive Income ("OCI") from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Company accounting policies.

All intercompany transactions, assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the year ended December 31, 2018 is as follows:

Company	Ownership percentage 2018
Gas Segment:	
Ecogas Mexico, S. de R. L. de C. V.	100.00
PE International Canada, S. de R. L. de C. V. ("merged in 2018 with IEnova Holdco, S. de R. L. de C. V. ")	100.00
Servicios DGN de Chihuahua, S. A. de C. V.	100.00
IEnova Gasoductos Mexico, S. de R. L. de C. V.	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V.	100.00
IEnova Gasoductos Holding, S. de R. L. de C. V.	100.00

Company	Ownership percentage 2018
Energia Costa Azul, S. de R. L. de C. V.	100.00
IEnova Marketing, S. de R. L. de C. V.	100.00
Ductos e Insfraestructura Marina, S. de R. L. de C. V.	100.00
IEnova Gas, S. de R. L. de C. V.	100.00
IEnova Pipelines, S. de R. L. de C. V.	100.00
Gasoductos de Tamaulipas, S. de R. L. de C. V.	100.00
Gasoductos del Noreste, S. de R. L. de C. V.	100.00
Transportadora del Norte SH, S. de R. L. de C. V.	100.00
TDF, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos Servicios Subholding, S. de R. L. de C. V.	100.00
Gasoductos Ingenieria, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos y de Administracion, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Norte, S. de R. L. de C. V.	100.00
IEnova Infraestructura Marina Holding, B. V.	100.00
IEnova Petroleum Liquids Holding, B. V.	100.00
IEnova Gasoductos Holding, LLC	100.00
Sempra Ecogas Holdings, LLC	100.00
IEnova Petroliferos Holdings, S. de R. L. de C. V.	100.00
IEnova Petroliferos III, S. de R. L. de C. V.	100.00
IEnova Petroliferos IV, S. de R. L. de C. V.	100.00
IEnova Petroliferos V, S. de R.L. de C. V.	100.00
IEnova Petroliferos VI, S. de R.L. de C. V.	100.00
ECA Liquefaction, S. de R. L. de C. V.	100.00
Servicios Energia Costa Azul, S. de R. L. de C. V.	100.00
ICM Ventures Holding, B. V.	51.00
TP Terminals, S. de R. L. de C.V.	51.00
ECA Minority, S. de R. L. de C. V.	100.00
ECA LNG Holdings, B. V.	50.00
ESJ Renovable III, S. de R. L. de C. V.	100.00
Power segment:	
Termoelectrica de Mexicali, S. de R. L. de C. V. and Subsidiaries	100.00
Termoelectrica U.S., LLC	100.00
Servicios Termoelectrica de Mexicali, S. de R. L. de C. V.	100.00
Controladora Sierra Juarez, S. de R. L. de C. V.	100.00
IEnova Ventika Holding, B. V.	100.00
IEnova Ventika Holding II, B. V.	100.00
IEnova Ventika Mexico, S. de R. L. de C. V.	100.00
IEnova Ventika Mexico II, S. de R. L. de C. V.	100.00
Ventika, S. A. P. I. de C. V.	100.00
Ventika II, S. A. P. I. de C. V.	100.00
ESJ Renovable I, S. de R. L. de C. V.	90.00
ESJ Renovable II, S. de R. L. de C. V.	100.00
Ventika Energy B. V. (formerly known as IEnova Renewable Holding I, B. V.)	100.00

Company	Ownership percentage 2018
IEnova Renewable Holding II, B. V.	100.00
Energia Sierra Juarez 2, U. S., LLC	100.00
Energia Sierra Juarez 2, S. de R. L. de C. V.	100.00
Energia Sierra Juarez Holding, S. de R. L. de C. V.	100.00
ESJ Energy, B.V.	100.00
Central Fotovoltáica Border Solar Norte, S. A. de C.V.	100.00
Don Diego Solar Netherlands, B. V.	100.00
Don Diego Solar Holding, S. de R. L. de C. V.	100.00
Don Diego Solar, S. A. P. I. de C. V.	100.00
IEnova Suministro Calificado, S. de R. L. de C. V.(formerly known as BC Transmision, S. de R. L. de C. V.)	100.00
Corporate segment:	
IEnova Holdco, S. de R. L. de C. V. (formerly known as Sempra Servicios Energeticos, S. de R. L. de C. V.)	100.00
Fundacion IEnova, A. C.	100.00
Inmobiliaria IEnova, S. de R. L. de C. V.	100.00

2.4. Classification of costs and expenses

The costs and expenses are presented according to their function because this is the practice of the industry in which the Company operates.

2.5. Cash and cash equivalents

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months as of their acquisition date, and are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the Consolidated Statements of Profit.

2.6. Restricted cash

Restricted cash comprises the amounts of cash of escrows used by the Company to make payments of certain operating costs, which are guaranteed until the completion of the projects. It also comprises the restricted cash under the project financing structure.

2.7. Short-term investments

Short-term investments consist mainly in money market funds, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks and are maintained for purposes other than operation.

2.8. Natural gas inventories

Liquefied natural gas inventory is recorded at the lower of cost or net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to sell.

2.9. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the benefits. All other leases are classified as operating leases.

2.9.1. The Company as lessor

Amounts payable by lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is distributed in the accounting periods to reflect a constant periodic rate of return on the Company´s net investment with respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.9.2. Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statements of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy on borrowing costs (Please refer to Note 2.18). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that income incentives received for holding operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10. Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of the joint venture are incorporated in these Consolidated Financial Statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. Under the equity method, an investment in a joint venture is initially recognized in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and OCI of the joint venture.

When the Company’s share of losses of a joint venture exceeds the Company’s interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company’s net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company’s share of the net fair value of the identifiable assets and

liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit in the year in which the investment is acquired.

The requirements of IFRS 9, *Financial instruments:* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets*, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit (as a reclassification adjustment) when the equity method is discontinued.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Company reduces its ownership interest in a joint venture but the Company continues to use the equity method, the Company reclassifies to profit the proportion of the gain or loss that had previously been recognized in OCI regarding that reduction in ownership interest if that gain or loss would be reclassified to profit on the disposal of the related assets or liabilities.

When the Company conducts transactions with joint ventures, non-realized profit and losses are eliminated at the Company's ownership percentage in the joint venture.

2.11. Business combination and assets acquisition

A Company 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,
ii. Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit. Amounts arising from interests in the acquiree prior to the acquisition date, that have previously been recognized in 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.

When a transaction or other event does not meet the definition of a business combination due to the asset or group of assets not meeting the definition of a business, it is termed an "asset acquisition". In such circumstances, the acquirer:

i. Identifies and recognizes the individual identifiable assets acquired and liabilities assumed; and,
ii. Allocates the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

In addition, in an asset acquisition, the acquirer generally capitalizes transaction costs as part of the cost of the assets acquired, applies the exception to recognition of deferred taxes arising upon the initial recognition of assets and liabilities, and, does not recognize contingent liabilities.

2.12. Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the Consolidated Statement of Profit. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit on disposal.

2.13. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the Consolidated Statements of Financial Position date. The CAs' cash inflows and outflows are classified as an operating activity in the Consolidated Statements of Cash Flows. (Please refer Note 21).

2.14. Property, plant and equipment

Property, plant and equipment are presented in the Consolidated Statements of Financial Position and recorded at acquisition cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Acquisition costs include labor, material costs and construction service agreements.

The Company recognizes decommissioning liabilities for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made.

Property, plant and equipment include major expenditures for improvements and replacements parts, which extend useful lives or increase capacity. Routine maintenance costs are expensed as incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for

intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. The buildings, equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write-off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit.

2.15. Intangible assets

Intangible assets acquired in a business combination and/or assets acquisition and 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.

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

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss related to TDM has been recognized in the Consolidated Statements of Profit.

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

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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 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 and Discontinued Operations* 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.

2.18. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Company generally borrows funds and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period. For a relationship designated as cash flow hedging, none of the effects of the derivative are included in capitalized interest.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit in the period in which they are incurred.

2.19. Employee benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Remeasurement comprising actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the Consolidated Statement of Financial Position charged to the credit recognized in the Consolidated Statements of Profit and OCI in the period in which they occur.

Remeasurement recognized in OCI is reflected immediately in retained earnings and will not be reclassified to profit or loss. The Company presents service costs within administrative and other expenses in the Consolidated Statements of Profit. The Company presents net interest cost within finance costs in the Consolidated Statements of Profit. The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the present value of the defined benefit obligation as of the end of each reporting year.

2.19.1. Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service and are presented in other liabilities.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

2.19.2. Statutory employee profit sharing

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the Consolidated Statement of Profit and Other Comprehensive Income.

As result of the 2014 Income Tax Law, as of December 31, 2018, 2017 and 2016, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

2.20. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.21. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit.

2.21.1. Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.21.2. Fair value

Fair value is defined in Note 2.2.b.

2.22. Financial assets

Financial assets are classified into the following categories: financial assets "at fair value through profit or loss" ("FVTPL"), investments held to maturity, financial assets "available for sale" ("AFS") and 'loans and receivables' (amortized cost). The classification depends on the nature and purpose of the financial assets and is determined at initial recognition. All purchases or sales of financial assets made routinely identified and removed based on the trade date. Purchases or sales regularly are those purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or custom in that market.

2.22.1. Amortized cost /effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating the interest income or interest cost during the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition.

2.22.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

i. It has been acquired principally for the purpose of selling it in the near term; or
ii. On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
iii. It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the cost of revenues and in other gains and losses line items in the Consolidated Statements of Profit. Fair value is determined in the manner described in Note 2.2.b.

2.22.3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. The Company does not hold any held-to-maturity financial assets.

2.22.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and amounts due from unconsolidated affiliates) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.22.5. Impairment of financial assets

Financial assets are subject to impairment tests at the end of each reporting period. It is considered that financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For all other financial assets, objective evidence of impairment could include:

i. Significant financial difficulty of the issuer or counterparty;
ii. Non-payment of interest or principal;
iii. It is probable that the borrower will enter bankruptcy or financial reorganization; or
iv. The disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except for accounts receivable where the carrying amount is reduced through an account of allowance for doubtful accounts. When a receivable is uncollectible, it is removed from the estimate. Subsequent recoveries of amounts previously written off become claims against the estimate. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Profit.

2.22.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

If a financial asset is derecognized, the difference between the book value of the asset and the compensation received is recognized in the Consolidated Statements of Profit.

For changes related to the adoption of IFRS 9 and IFRS 7, refer to notes 38 and 24.9, respectively.

2.23. Financial liabilities and equity instruments

2.23.1. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.23.2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.23.3. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.23.3.1. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

i. It has been acquired mainly for the purpose of repurchasing it in the near term; or
ii. It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of making profits in the short term; or
iii. It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial liabilities as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item in the Consolidated Statements of Profit. Fair value is determined as described in Note 24.

2.23.3.2. Other financial liabilities

Other financial liabilities (including borrowings, due to unconsolidated affiliates, trade payables and customers deposits) are subsequently measured at amortized cost using the effective interest method.

2.23.3.3. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in Consolidated Statements of Profit.

2.24. Derivative financial instruments

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in Note 24.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

2.24.1. Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.24.2. Own use exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

2.25. Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivative with respect to foreign currency risk, either as fair value hedges, cash flow hedges, or hedges of a net investment in a transaction foreign. The hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

For its hedging instruments, the Company documents the relationship between the hedging instrument and the hedged item at the inception of the hedge relationship, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.25.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in Consolidated Statements of Profit.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit in the years when the hedged item is recognized in profit, in the same line of the Consolidated Statements of Profit as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit.

2.25.2. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.26. Taxation

Income Tax expense represents the sum of the current and deferred tax.

2.26.1. Current tax

Current income tax is recognized in the results of the year in which it is incurred.

2.26.2. Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.26.3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.26.4. Tax on assets

The assets tax ("IMPAC") expected to be recoverable is recorded as a tax credit and is presented in the balance sheet in the income taxes receivable line item.

2.27. Revenue recognition

The Company has initially applied IFRS 15 from 1 January 2018. Information about the Company's accounting policies relating to contracts with customers is provided in Note 29. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 29.

2.27.1. Sale of goods

Revenue from the sale of goods are recognized over the time when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

Management considered practical expedient which allows companies to recognize revenues based on amount invoiced to the customer when the amount of the invoice corresponds directly with the value transferred.

The following revenue streams related to the sale of goods are recognized in accordance with the previous accounting policy :as disclosed in more detail below:

i. Sales of natural gas and the related costs are recognized upon the transfer of title, which coincides with the physical delivery of natural gas to customers; and,
ii. Power generation on revenues are recognized when generated power is delivered.

2.27.2. Rendering of services

Under IFRS 15 revenue is recognized upon the satisfaction of an entity's performance obligation which occurred when contract service transfers to the costumer at a point in time or over time.

The main services are consumed simultaneously therefore the performance obligation is eligible for recognition over the time.

Management considered practical expedient which allows companies to recognize revenues based on amount invoiced to the customer when the amount of the invoice corresponds directly with the value transferred.

The following revenue streams related to the rendering of services are recognized in accordance with the previous accounting policy as disclosed in more detail below:

i. Storage and regasification capacity are recognized based on reservation and usage fees under terminal capacity agreements and nitrogen injection service agreements;

ii. Revenues and related costs and expenses from gas distribution and transportation are recognized when the distribution or transportation services are rendered;
iii. Revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas; and,
iv. Revenues and costs related to administrative and other services are recognized when such services are rendered according to the related service contracts.

2.27.3. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset´s net carrying amount on initial recognition.

2.27.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.1.

2.28. Foreign currencies

The Company's functional currency is the U. S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and Fundacion IEnova in the corporate segment, which is the Mexican Peso.

In preparing the Consolidated Financial Statements of each individual subsidiary of the Company, transactions in currencies other than the subsidiaries functional currency (U. S. Dollar or Mexican Peso) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

i. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
ii. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in OCI and reclassified from equity to profit on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U. S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period. Profit amounts are translated at the rate of the transaction date, unless there are significant currency fluctuations during the period, in which case the exchange rates at the dates of the transactions are used.Exchange differences arising, if any, are recognized in other items of comprehensive income and accumulated in equity.

On the disposal of an operation with a Mexican Peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company´s accounting policies, the management of the Company required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the 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.

3.1. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 3.2 below), that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

3.1.1. Finance leases

Management has determined that certain arrangements should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

3.1.2. Regulatory accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where a company has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2018, 2017 and 2016, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, *Regulatory deferral accounts* on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

3.1.3. Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

3.1.4. Own use exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts which are not used for operational purposes as derivative instruments.

If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement.

Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

3.1.5. Determining whether an arrangement contains a lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

3.1.6. Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's Consolidated Statements of Financial Position.

3.2.1. Estimated useful lives of property, plant and equipment

As described in Note 2.14., the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Please refer to Note 14.1. for useful lives of property, plant and equipment.

3.2.2. Impairment of long-lived assets (goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

3.2.3. Asset decommissioning obligation

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the Consolidated Statements of Financial Position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-

lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

3.2.4. Valuation of financial instruments (fair value measurement)

The Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Please refer to Note 24. for detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3.2.5. Allowance for doubtful accounts (expected losses)

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the expected loss recognized is considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

3.2.6. Recoverability of deferred tax assets

As mentioned in Note 25., the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

3.2.7. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 17., the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

3.2.8. Key sources of estimation uncertainty for IEnova Pipelines

Selected Valuation Methodology.

IEnova Pipelines is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

3.2.9. Key sources of estimation uncertainty for Ventika

Selected Valuation Methodology.

Based on the nature of the power facility and generally accepted industry practice, the Company relied on the Income Approach, specifically the Discounted Cash Flow ("DCF") method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive the fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to the fair value estimate derived utilizing the Income Approach. It is noted that the derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

4. Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, banks and investments in instruments in the money market funds, net of bank overdrafts.

Cash and cash equivalents at end of year as shown in the Consolidated Statements of Cash Flows can be reconciled to the related items in the Consolidated Statements of Financial Position as follows:

	As of		
	12/31/18	12/31/17	12/31/16
Cash and cash equivalents	$ 51,681	$ 37,208	$ 24,918

The Company maintained restricted cash , as a current asset and non current asset $26.3 million wich $2.9 millions are presented in non cuarrent asstes, $55.8 million and $51.4 million as of December 31, 2018, 2017and 2016, respectively, to make payments of certain operating costs for the execution of projects.

5. Trade and other receivables, net

	As of		
	12/31/18	12/31/17	12/31/16
Trade receivables	$ 146,273	$ 93,299	$ 90,523
Allowance for doubtful accounts (a)	(40)	(41)	(101)
	146,233	93,258	90,422
Other receivables	7,416	1,535	10,464
	$ 153,649	$ 94,793	$ 100,886

(a) For the Gas segment, ECO, has recognized an allowance for doubtful accounts of 80 percent against all receivables outstanding between 180 and 269 days and 100 percent against all receivables outstanding over 270 days, based on historical experience.

The Company revised methodology based on IFRS 9: Expected losses and compared versus the amount determined under the described methodology and the amount recorded is appropriate.

Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting year for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

5.1. Age of receivables that are past due but not impaired

	As of		
	12/31/18	**12/31/17**	**12/31/16**
31-120 days	$ 33	$ 61	$ 35
121-180 days	18	21	7
181-270 days	11	5	3
Total	$ 62	$ 87	$ 45
Average age (days)	41	29	30

5.2. Movement in the allowance for doubtful accounts

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Balance as of beginning of the year	$ (41)	$ (101)	$ (147)
Impairment losses recognized on receivables	(69)	(90)	(46)
Amounts written off during the year as uncollectible	66	152	65
Foreign exchange translation gain (loss)	4	(2)	27
Balance as of end of the year	$ (40)	$ (41)	$ (101)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. See Note 24.9. for more details of the Company's credit risk management and concentration of credit risk assessment.

5.3. Age of impaired trade receivables

	As of		
	12/31/18	**12/31/17**	**12/31/16**
181-270 days	$ (14)	$ (20)	$ (10)
Over 270 days	(26)	(21)	(91)
Total	$ (40)	$ (41)	$ (101)

6. Transaction 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.

6.1. Transactions and balances with unconsolidated affiliates

During the years ended December 31, 2018, 2017 and 2016, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues		
	Year ended		
	12/31/18	12/31/17	12/31/16
Sempra Gas & Power Marketing, LLC ("SG&PM")	$ 226,004	$ 140,914	$ 62
Sempra LNG International Holdings, LLC ("SLNGIH")	59,588	103,043	101,998
SLNGI	38,847	—	—
TAG Pipelines Norte	23,357	1,766	—
Sempra International, LLC ("Sempra International")	1,763	1,844	1,746
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	1,215	1,072	1,243
Southern California Gas Company ("SoCalGas")	731	231	12
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	81	217	2,026
ESJ	7	—	94
DEN	—	6,761	—
SGEN	—	—	101,130

	Cost of revenue, administrative and other expenses		
	Year ended		
	12/31/18	12/31/17	12/31/16
SLNGI	$ 230,510	$ 207,505	$ 178,145
SG&PM	139,565	88,144	4,124
Sempra International	8,509	7,250	8,301
Sempra Infrastructure, LLC. (formerly Sempra U.S. Gas & Power, LLC "USGP")	5,430	6,936	6,930
SoCalGas	2,026	1,258	1,450
Pacific Enterprises International INC ("PEI INC")	366	—	—
Sempra Energy Holdings, XI. B. V. ("SEH")	131	—	—
Sempra Midstream, Inc. ("Sempra Midstream")	—	492	688
SGEN	—	—	25,335

Included in the operational transactions are administrative services from affiliates by $8.5 million, $7.3 million and $8.3 million for the years ended December 31, 2018, 2017 and 2016, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

	Interest income		
	Year ended		
	12/31/18	12/31/17	12/31/16
IMG	$ 61,581	$ 17,211	$ —
ESJ	401	775	1,122
SEG	75	180	24
DEN	—	3,665	4,082

	Finance costs		
	Year ended		
	12/31/18	12/31/17	12/31/16
Inversiones Sempra Limitada (“ISL”)	$ 9,315	$ 3,491	$ 534
Peruvian Opportunity Company, S. A. C. (“POC”)	2,941	944	4
SEH	2,310	937	1,236
TAG Pipelines Norte	1,651	50	—
Sempra Oil Trading Suisse (“SOT Suisse”)	1,321	1,265	1,363
Sempra Energy International Holdings, N. V. ("SEI NV")	209	—	—
Inversiones Sempra Latin America Limitada (“ISLA”)	—	1,174	1,618
SEG (i)	—	332	831
DEN	—	143	46
SEMCO (ii)	—	—	364

i. On September 26, 2016, IEnova entered into a $800.0 million of U.S. Dollar-denominated loan with SEG, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest is payable on a monthly basis at LIBOR plus 110 Basis Points ("BPS") of outstanding balances. In October 2016, with the proceeds from the Global Offering, the Company repaid this loan including the corresponding interests.

ii. On September 26, 2016, IEnova entered into a $350.0 million of loan with SEMCO, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest was payable on a monthly basis at LIBOR plus 110 BPS of outstanding balances.

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

	Amounts due from unconsolidated affiliates		
	As of		
	12/31/18	12/31/17	12/31/16
SG&PM	$ 40,600	$ 10,723	$ —
TAG Pipelines Norte	2,234	4,289	—
PEI INC	1,803	—	—
SESJ	346	371	174
SoCalGas	60	21	—
SLNGIH	—	9,162	6,456
SLNGEL	—	34	53
DEN	—	—	5,754
ESJ	—	—	539
	$ 45,043	$ 24,600	$ 12,976

	Amounts due to unconsolidated affiliates		
	As of		
	12/31/18	12/31/17	12/31/16
ISL (iii)	$ 165,768	$ 275,188	$ 30,025
POC (iv)	102,000	102,020	20,004
SG&PM	23,412	17,525	491
SLNGI	18,795	16,360	11,135
PEI INC	390	—	—
SoCalGas	199	98	120
Sempra International	122	226	582
SEH (v)	10	132,800	—
ISLA (iii)	—	—	160,091
SOT Suisse (vi)	—	—	38,460
Sempra Midstream	—	—	6
	$ 310,696	$ 544,217	$ 260,914

iii. On March 2, 2015, IEnova entered into a $90.0 million and a $30.0 million U.S. Dollar-denominated credit facilities with ISLA and ISL, respectively, to finance working capital and for general corporate purposes. The agreements are nine-month term, with an option to be extended for up to four years. Interest is payable on a quarterly basis a rate of 1.98 percent per annum of outstanding balances.

In December 2016, the Company signed addendums modifying the initial contracts and the new characteristics are: the term was extended and was due and payable in full on December 15, 2017. The applicable interest shall be computed and paid on a quarterly basis at the rate of 1.75 percent per annum.

On December 27, 2016, IEnova entered into a $70.0 million U.S. Dollar-denominated affiliate revolving credit facility with ISLA, to finance working capital and for general corporate purposes. The credit facility has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at a rate of 1.75 percent per annum. Interest shall be paid on the last day of each calendar quarter.

On March 21, 2017, IEnova entered into an $85.0 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 it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

Effective June 1, 2017, ISLA was merged with and into ISL which is the surviving entity in the merger, the agreements conditions between ISL and IEnova remain the same.

On December 15, 2017, the Company signed addendums modifying the contracts terms over the $90.0 million, $30.0 million and $70.0 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 December 15, 2018, 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.

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 LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

On March 21, 2018, the Company signed an addendum modifying the contract's terms over the $85.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and is 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.

On November 30, 2018, the Company made a payment to ISL for $179.2 million, the loans for $90.0 million and $70.0 million was paid in full and the loan for $30.0 million was partially paid leaving a balance to pay $165.8 million.

On December 15, 2018, the Company signed an addendum modifying the contract's terms over the $30.0 million and $70.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and is due and payable in full on December 15, 2019, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 1.024 percent per annum. Interest shall be paid on the last day of each calendar quarter.

iv. On December 27, 2016, IEnova entered into a $20.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest on the outstanding balance is payable on a quarterly basis at rate of 1.75 percent per annum.

On April 27, 2017, IEnova entered into a $19.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend for up to four years. Interest on the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum.

On June 26, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum. On June 26, 2018, IEnova signed an addendum modifying the contract term to December 15, 2018.

On September 29, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum. On September 28, 2018, IEnova signed an addendum modifying the contract term to December 15, 2018.

On December 15, 2017, the Company signed an addendum modifying the contract term over the $20.0 million U.S. Dollar-denominated revolving credit facilities with POC and the new characteristics are: the term was extended and are due and payable in full on December 15, 2018, 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.

On December 28, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend for up to four years. Interest on the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 63 BPS per annum.

On December 15, 2018, the Company signed an addendum modifying the following contracts:

- $20.0 million (originally issued on December, 27, 2016)
- $19.0 million (originally issued on April 27, 2017)
- $21.0 million (originally issued on June 26, 2017)
- $21.0 million (originally issued on September, 29, 2017)
- $21.0 million (originally issued on December, 28, 2017)

The new conditions of the contract in relation to $102.0 million U.S. Dollar-denominated credit facilities with POC are: the term was extended and is due and payable in full on December 15, 2019, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 90 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

v. 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. In August 2018, the outstanding balance of $132.8 million was paid in full by the Company.

vi. During 2018, 2017 and 2016, related to the loan with SOT Suisse, the Company paid interest in the amount of $1.2 million, $1.3 million and $1.4 million, respectively. The loan bears variable interest based on U. S. Treasury mid-term applicable federal rate plus 200 BPS (an average annual rate of 3.99 percent, 3.29 percent and 3.58 percent in 2018, 2017 and 2016, respectively).

Transactions with unconsolidated affiliates during 2018, 2017 and 2016, have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2018, and as of the date of this report, the nature and amount of transactions are consistent with previous years. The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given nor received. No expenses have been recognized in the current or prior periods for bad or doubtful debts regarding the amounts owed by unconsolidated affiliates.

6.2. Loans to unconsolidated affiliates

	As of		
	12/31/18	**12/31/17**	**12/31/16**
IMG (i)	$ 640,775	$ 487,187	$ —
ESJ	3,411	6,700	14,307
SEG	2,111	—	—
DEN	—	—	90,045
	$ 646,297	$ 493,887	$ 104,352

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 December 31, 2018, the outstanding balance amounts $12,612.3 million Mexican Pesos, including $1,457.6 million Mexican Pesos of accrued interest.

6.3. Loans from unconsolidated affiliates

	As of		
	12/31/18	**12/31/17**	**12/31/16**
SEI NV (i)	$ 38,460	$ —	$ —
TAG Pipelines Norte (ii)	36,701	35,050	—
SOT Suisse (i)*	—	38,460	—
DEN	—	—	3,080
	$ 75,161	$ 73,510	$ 3,080

* This amount was reclassified in 2016 to current liabilities.

i. On March 17, 2017, IEnova entered into an amended agreement with SOT Suisse in order to extend the loan to seven years. The interest is payable on an annually basis at three-month LIBOR plus 180 BPS.

On November 9, 2018, the contract signed between the Company and SOT Suisse was transferred to SEI NV with no modifications in the original terms and conditions except for the modification in interest rate of three-month LIBOR plus 137 BPS per annum. The credit matures on March 17, 2024.

ii. On December 19, 2017, DEN entered into a $35.0 million U.S. Dollar-denominated affiliate credit facility with TAG, to finance working capital and general business purposes. The credit facility has a four years term. Interest on the outstanding balance is payable on a quarterly basis at six-month LIBOR plus 290 BPS per annum.

6.4. Compensation of key management personnel

Total compensation paid to key management personal was $13.5 million, $10.3 million and $5.0 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

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

7. Natural gas inventories

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Liquefied natural gas	$ 3,516	$ 7,196	$ 6,083

The cost of inventories recognized within cost of revenues were $222.0 millions, $194.0 millions and $164.4 millions for the years ended December 31, 2018, 2017 and 2016, respectively.

For the years ended December 31, 2018, 2017 and 2016, no cost of revenue was recognized, due to write-downs of inventory to net realizable value.

8. Finance lease receivables

8.1. Finance lease receivables – Natural Gas Compression Plant

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Current finance lease receivables	$ 433	$ 308	$ 219
Non-current finance lease receivables	13,394	13,827	14,135
	$ 13,827	$ 14,135	$ 14,354

Leasing arrangements.

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

8.1.1. Amounts receivables under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	As of			As of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 5,136	$ 5,136	$ 5,136	$ 433	$ 308	$ 219
Later than one year and not later than five years	20,544	21,828	22,458	4,348	3,464	3,403
More than five years	14,123	17,975	24,395	9,046	10,363	10,732
	39,803	44,939	51,989	13,827	14,135	14,354
Less: unearned finance income	(25,976)	(30,804)	(37,635)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 13,827	$ 14,135	$ 14,354	$ 13,827	$ 14,135	$ 14,354

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

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

The average effective interest rate contracted is approximately 34.5 percent per annum for 2018, 2017 and 2016. The receivable under finance lease balance as of December 31, 2018, 2017 and 2016, is neither past due nor impaired.

8.2. Finance lease receivables – Los Ramones I Pipeline

	As of		
	12/31/18	12/31/17	12/31/16
Current finance lease receivables	$ 4,517	$ 3,665	$ 3,383
Non- current finance lease receivables	562,888	567,405	571,070
	$ 567,405	$ 571,070	$ 574,453

Leasing arrangements.

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

8.2.1. Amounts receivables under finance leases

	Minimum lease payments			Present of minimum lease payments		
	As of			As of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 86,470	$ 87,104	$ 87,639	$ 4,517	$ 3,665	$ 3,383
Later than one year and not later than five years	426,802	424,616	428,582	32,643	28,108	23,997
More than five years	812,855	901,512	984,650	530,245	539,297	547,071
	1,326,127	1,413,232	1,500,871	567,405	571,070	574,451
Less: unearned finance income	(758,722)	(842,162)	(926,418)	n/a	n/a	n/a

	Minimum lease payments			Present of minimum lease payments		
	As of			As of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Present value of minimum lease payments receivable	$ 567,405	$ 571,070	$ 574,453	$ 567,405	$ 571,070	$ 574,451

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

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

The average effective interest rate contracted is approximately 15.2 percent per annum for 2018, 2017 and 2016. The receivable under finance lease balance as of December 31, 2018 ,2017 and 2016, is neither past due nor impaired.

8.3. Finance lease receivables – Ethane Pipeline

	As of		
	12/31/18	12/31/17	12/31/16
Current finance lease receivables	$ 4,859	$ 4,153	$ 3,553
Non-current finance lease receivables	356,093	360,952	365,106
	$ 360,952	$ 365,105	$ 368,659

Leasing arrangements.

The Company entered into a finance lease arrangement for its ethane pipeline. The lease is denominated in U. S. Dollars.

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI Braskem-IDESA to Cangrejera (Veracruz), through a 20-inch and 4 km length pipeline. The term of the finance lease is 20.5 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 20.5 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 December 31, 2018, of this finance lease is as follows:

	Amount
Segment I	$ 31,257
Segment II	183,814
Segment III	145,881
Total	$ 360,952

8.3.1. Amounts receivables under finance leases

	Minimum lease payments			Present of minimum lease payments		
	As of			As of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 54,704	$ 55,393	$ 55,976	$ 4,859	$ 4,153	$ 3,553
Later than one year and not later than five years	258,766	264,235	268,951	38,948	33,512	28,779
More than five years	416,097	388,982	439,651	317,145	327,440	336,327
	729,567	708,610	764,578	360,952	365,105	368,659
Less: unearned finance income	(368,615)	(343,505)	(395,919)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 360,952	$ 365,105	$ 368,659	$ 360,952	$ 365,105	$ 368,659

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 December 31, 2018, 2017 and 2016, respectively. The receivable under finance lease balance as of December 31, 2018, 2017 and 2016, is neither past due nor impaired.

9. Other assets

	As of		
	12/31/18	12/31/17	12/31/16
Veracruz marine terminal initial bidding quota (Refer to Note 1.2.13.d)	$ 54,163	$ 28,179	$ —
Topolobampo marine terminal initial bidding quota (Refer to Note 1.2.13.h)	18,371	—	—
Rights of way	14,073	—	—
Prepayments	8,966	9,621	9,495
Contractual tariff	5,744	—	—
Standby letter credit Facility (LOCF) related costs	1,506	—	—
Pipeline interconnection rights	1,486	1,637	1,792
Prepaid land leases	547	526	839
Pipeline integrity system	468	593	—
IMPAC recoverable	—	1,455	1,698
Natural gas imbalance	—	974	320
	$ 105,324	$ 42,985	$ 14,144
Amortization expense (a)	$ (1,569)	$ —	$ —
	$ 103,755	$ 42,985	$ 14,144
Current	$ 9,695	$ 10,327	$ 9,289
Non–current	94,060	32,658	4,855
	$ 103,755	$ 42,985	$ 14,144

a. The amortization expense as of December 31, 2018, is for an amount of $1,504.0 million and $65.0 million related to Veracruz and Topolobampo marine terminals, respectively.

10. Investment in joint ventures

10.1. IEnova Pipelines

Until September 26, 2016, the Company owned a 50 percent interest in IEnova Pipelines, a joint venture with Pemex TRI a Pemex subsidiary. IEnova Pipelines operates three natural gas pipelines, five natural gas compression stations, one LPG system and one ethane pipeline, in the states of Chiapas, Chihuahua, Nuevo Leon, Tabasco, Tamaulipas and Veracruz and one LPG storage facility in the state of Jalisco, Mexico.

Beginning September 27, 2016, the Company fully consolidates IEnova Pipelines. (Please refer to Note 11.1.).

10.2. ESJ

The joint venture formed between IEnova and Saavi Energia, started operations in June 2015. As of December 31, 2018, 2017 and 2016, the Company's remaining 50 percent interest in ESJ is accounted for under the equity method. ESJ's Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As of		
	12/31/18	12/31/17	12/31/16
Cash and cash equivalents	$ 1,695	$ 2,785	$ 9,601
Other assets	24,165	18,479	15,201
Current assets	25,860	21,264	24,802
Deferred income tax assets	2,849	4,778	5,413
Other assets	2,784	2,795	2,650
Property, plant and equipment, net	241,457	252,856	264,468
Non-current assets	247,090	260,429	272,531
Total assets	$ 272,950	$ 281,693	$ 297,333
Current liabilities	$ 16,673	$ 17,509	$ 17,777
Non-current liabilities	210,991	231,048	255,070
Total liabilities	$ 227,664	$ 248,557	$ 272,847
Total members' equity	$ 45,286	$ 33,136	$ 24,486
Share of members' equity	$ 22,643	$ 16,568	$ 12,243
Goodwill	12,121	12,121	12,121
Carrying amount of investment in ESJ	$ 34,764	$ 28,689	$ 24,364

ESJ's Consolidated Statements of Profit are as follows:

	Year ended		
	12/31/18	12/31/17	12/31/16
Revenues	$ 45,759	$ 46,570	$ 44,283
Operating, administrative and other expenses	(20,210)	(22,147)	(20,773)
Finance costs	(15,166)	(15,929)	(16,731)
Other gains, net	48	13	221
Income tax expense	(2,780)	(1,340)	(1,886)
Profit for the year	$ 7,651	$ 7,167	$ 5,114
Share of profit of ESJ	$ 3,825	$ 3,583	$ 2,557

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"), 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 date June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of $239.8 million. The debt outstanding as of December 31, 2018, is as follows:

	Debt balance
Mizuho	$ 46,256
SMBC	46,256
NORD/LB	46,256
NAFINSA	33,640
NADB	33,640
	$ 206,048

b. ***Interest rate swaps***. To partially mitigate its exposure to interest rate changes associated with the term loan, ESJ entered into floating-to-fixed interest rate swaps for 90 percent of the ESJ project financing loan amount.

There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014, and an effective date of June 30, 2015, the date of conversion to a

term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.

c. ***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.

10.3. IMG

The joint venture formed between IEnova and 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 December 31, 2018, 2017 and 2016, the Company's 40 percent interest in IMG is accounted for under the equity method. IMG's Consolidated Financial Statements and the Company's equity method investment are summarized as follows:

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Cash and cash equivalents	$ 55,333	$ 58,284	$ 128,110
Accounts receivable	$ 60,322	—	—
Value added tax receivable	51,371	195,350	12,264
Other assets	1	434	683
Total current assets	167,027	254,068	141,057
Total non-current assets	2,594,950	1,653,554	135,494
Total assets	$ 2,761,977	$ 1,907,622	$ 276,551
Current liabilities	$ 364,716	$ 176,771	$ 27,916
Long term debt	1,602,029	1,222,973	—
Deferred revenue	56,754	—	—
Deferred income tax liabilities	51,785	34,209	2,678
Total non-current liabilities	1,710,568	1,257,182	2,678
Total liabilities	$ 2,075,284	$ 1,433,953	$ 30,594
Total members' equity	$ 686,693	$ 473,669	$ 245,957
Share of members' equity	$ 274,677	$ 189,468	$ 98,383
Guarantees	5,018	5,018	—
Remeasurement of interest rate (c)	(37,653)	—	—
Share of members' equity and carrying amount of investment in IMG	$ 242,042	$ 194,486	$ 98,383

IMG's Consolidated Statements of (loss) profit are as follows:

	Year ended		
	12/31/18	12/31/17	12/31/16
Finance income (costs), net	$ 7,582	$ 78,082	$ (467)
Other gains (losses), net*	9,858	692	(1,646)
Income tax expense	(17,657)	(31,233)	(3,122)
(Loss) profit for the year	$ (217)	$ 47,541	$ (5,235)
Share of (loss) profit of IMG	$ (87)	$ 19,016	$ (2,094)

* Includes a foreign exchange impact mainly related to the Mexican Peso-denominated inter-affiliate loan granted by the Company and TransCanada to IMG for the proportionate share of the project financing. In the Consolidated Statements of Profit, in the "Other gains (losses), net", net line item, a corresponding foreign exchange gain (loss) which fully offsets the aforementioned effect, is included.

a. ***Project financing for the IMG project.*** As of December 31, 2018, 2017 and 2016, 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, for $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 December 31, 2018, with IEnova is $12,612.3 million Mexican Pesos.
On March 23, 2018, IMG entered into a $300.0 million U. S. Dollar-denominated revolving credit facility with Scotiabank, 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.

As of December 31, 2018, a total of $278.7 million debt is outstanding under this credit facility.

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 $5.3 million and will terminate upon completion of all guaranteed obligations. The guarantees have terms ranging through July 2019.

c. ***Remeasurement of interest rate.*** As of December 31, 2018, the adjusted amount in the financial income for the loan between IEnova and IMG was $37.7 million, derived from the difference in the capitalized interest rates of projects under construction, by contract loan accrues interest at TIIE rate plus 220 PBS, 10.2 percent average during 2018; while the financing of the resources used by IEnova accrues interest at 3.9 percent average during 2018.

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

On September 20, 2018, the Company made a capital contribution of $20.2 million to IMG.

On October 30, 2018, the Company made a capital contribution of $34.9 million to IMG.

e. ***Other disclosures.*** Offshore mainline construction was completed in May 2018 and the project continues to progress toward an anticipated in-service date in early second quarter of 2019, with an investment of approximately $2.4 billion, equivalent to $1.0 billion with IEnova's 40 percent share. An amending agreement has been signed with the Comision Federal de Electricidad ("CFE") that recognizes force majeure events and payment of fixed capacity charges beginning October 31, 2018.

10.4. DEN

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

In November 2017, the Company fully consolidated DEN.

DEN's Consolidated Financial Statements of Financial Position and the Company's equity method investment, are summarized as follows:

	As of	
	10/31/17	**12/31/16**
Cash and cash equivalents	$ 17,257	$ 8,819
Due from unconsolidated affiliates	4,135	4,012
Other assets	7,166	4,278
Total current assets	28,558	17,109
Deferred income tax assets	$ 10,361	$ 17,364
Investments in join ventures	195,981	155,327
Property, plant and equipment, net	1,795	1,689
Total non-current assets	208,137	174,380
Total assets	$ 236,695	$ 191,489
Current liabilities	$ 68	$ 646
Non-current liabilities	194,010	185,627
Total liabilities	$ 194,078	$ 186,273
Total members' equity	$ 42,617	$ 5,216
Share of members' equity and carrying amount of investment in DEN	$ 21,309	$ 2,608

DEN's Consolidated Statements of Profit is as follows:

	Period ended	**Year ended**
	10/31/17	**12/31/16**
Revenues	$ 18,532	$ 5,623
Operating, administrative and other expenses	(7,185)	(5,310)
Finance costs	(7,394)	(2,126)
Other losses	(202)	(341)
Income tax (expense) benefit	(7,003)	3,464
Share of profit of joint venture, net of income tax	41,551	2,604
Profit for the period / year	$ 38,299	$ 3,914
Share of profit of DEN	$ 19,150	$ 1,957

On November 15, 2017, IEnova completed the acquisition of Pemex's TRI 50 percent interest in DEN.

In November, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. (Please refer to Note 11.3.).

10.5. TAG

TAG, together with TAG Pipelines Norte a joint venture between IEnova and a consortium comprised of BlackRock and First Reserve, own 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.(Please refer to Note 11.3.).

As of December 31, 2018, the interest in TAG is accounted for under the equity method. TAG's Consolidated Statement of Financial Position and the Company's equity method investment are summarized as follows:

	As of	
	12/31/18	**12/31/17**
Cash and cash equivalents	$ 88,977	$ 81,823
Other assets	36,917	22,293
Total current assets	125,894	104,116
Due from unconsolidated affiliates	73,715	70,698
Finance lease receivables	1,411,308	1,431,703
Other assets	3,202	16,466
Property, plant and equipment, net	15,282	15,471
Total non-current assets	1,503,507	1,534,338
Total assets	$ 1,629,401	$ 1,638,454
Current liabilities	$ 69,115	$ 58,023
Non-current liabilities	1,083,748	1,178,616
Total liabilities	$ 1,152,863	$ 1,236,639
Total members' equity	$ 476,538	$ 401,815
Share of members' equity and carrying amount of investment in TAG	$ 238,269	$ 200,907
Equity method goodwill	99,020	99,020
Total amount of the investment in TAG	$ 337,289	$ 299,927

TAG's Consolidated Statement of Profit is as follows:

	Year ended 12/31/18	**For the period of 11/01/17 to 12/31/17**
Revenues	$ 211,002	$ 32,411
Operating, administrative and other expenses	(32,903)	(6,876)
Finance costs	(60,052)	(10,517)
Other (losses) gains, net	(1,564)	217
Income tax expense	(47,992)	(9,378)
Profit for the period	$ 68,491	$ 5,857
Share of profit of TAG	$ 34,246	$ 2,928

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) the 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 bear 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 December 31, 2018, the total outstanding loan is $1,062.0 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 limits dividend payments, loans and obtaining additional financing. TAG met such covenants as of December 31, 2018.

Long-term debt due dates are as follows:

Year		Amount
2019	$	59
2020		59
2021		59
2022		59
Thereafter		826
Total	$	1,062

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 2.9 percent for the debt maturing at December 2034.

c. ***Exchange rate forwards.*** In September 2017, TAG Pipelines Norte entered into forward contracts to exchange Mexican Pesos for U. S. Dollars of a portion of the project revenues for 2018; maturing from March 2018 through February 2019. Additionally, in September 2018, entered into forward contracts to exchange Mexican Pesos for U. S. Dollars of a portion of the projects' revenues for 2019; maturing from January 2019 through February 2020.

11. Business combinations and assets acquisition

11.1. IEnova Pipelines, business combination

On September 26, 2016, IEnova acquired the remaining 50 percent of IEnova Pipelines shares at a value of $1,143.8 million, which was recorded using the acquisition method as it obtained control over IEnova

Pipelines as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. ***Subsidiaries acquired***

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
IEnova Pipelines	Gas transportation	September 26, 2016	50%	$1,143,834

b. ***Consideration transferred***

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit.

c. ***Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions***

		As of 9/26/16
Fair value of business combination:		
Cash consideration (fair value of total consideration)	$	1,143,834
Total fair value of business combination	$	2,287,668
Cash and cash equivalents		66,250
Trade and other receivables		66,739
Finance lease receivables		945,104
Property, plant and equipment, net		309,186
Other assets		933
Current liabilities		(112,980)
Non-current liabilities (i)		(484,572)
Total identifiable, net assets		1,275,232
Goodwill	$	1,497,008

i. Includes $364.0 million related to bank loans.

None of the goodwill is expected to be deductible for tax purposes.

Key sources of estimation uncertainty

Selected Valuation Methodology.

IEnova Pipelines is a regulated business, that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

d. ***Net cash flow from acquisition of subsidiaries***

		As of 09/26/16
Consideration paid in cash	$	1,143,834
Less: balances of cash and cash equivalents acquired		(66,250)
Consideration paid in cash, net	$	1,077,584

e. ***Impact of acquisitions on the results of the period***

The results of the year ended December 31, 2016, includes a gain of $673.1 million for the excess of the acquisition-date fair value of IEnova's previously held equity interest in IEnova Pipelines over the carrying value of that interest, included as remeasurement of equity method investment on the Consolidated Statements of Profit.

11.2. Ventika, business combination

On December 14, 2016, IEnova acquired the 100 percent of the shares of Ventika at a value of $434.7 million, which was recorded using the acquisition method as it obtained control over Ventika as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. ***Subsidiaries acquired***

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Ventika	Wind Generation Facility	December 14, 2016	100%	$434,688

b. ***Consideration transferred***

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit.

c. ***Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions***

		As of 12/14/16
Fair value of business combination:		
Cash consideration (fair value of total consideration)	$	309,724
Total fair value of business combination	$	309,724
Cash and cash equivalents		24
Trade and other receivables, net		14,939
Restricted cash		68,299
Other assets		51,216
Property, plant and equipment, net		673,410
Intangible assets		154,144
Current liabilities		(145,912)
Non-current liabilities		(621,825)
Total identifiable, net assets	$	194,295

	As of 12/14/16
Goodwill	$ 115,429

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded measurement period adjustments that resulted in a net decrease to goodwill and an increase in deferred tax assets of $13.7 million, respectively.

d. ***Net cash flow used in acquisition of subsidiaries***

	As of 12/14/16
Consideration paid in cash	$ 434,688
Less: balances of cash and cash equivalents acquired	(24)
Consideration paid in cash, net	$ 434,664

11.3. DEN, asset acquisition

On November 15, 2017, IEnova completed the acquisition of Pemex TRI's 50 percent interest in DEN, a joint venture that holds a 50 percent interest in the Los Ramones Norte pipeline, through 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 increases 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. In November, 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 (Please refer to Note 15.).

a. ***Assets acquisition***

Entity	Main activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
DEN	Holds equity investment in TAG	November 15, 2017	50%	$164,752

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

	As of 11/15/17
Fair value of assets acquisition:	
Cash paid	$ 164,752
Acquisition costs	143
Total fair value of assets acquisition	$ 164,895
Cash and cash equivalents	17,257
Trade and other receivables	12,284

	As of 11/15/17
Deferred income tax assets	10,481
Investment in TAG	295,002
Property, plant and equipment, net	1,795
Other intangible assets	44,566
Current liabilities	(99,343)
Non-current liabilities	(95,839)
Total identifiable, net assets	$ 186,203
Less: Carrying value of equity interest in DEN immediately prior to acquisition	(21,308)
Total fair value of assets acquisition	$ 164,895

Valuation of DEN's Assets and Liabilities. DEN is substantially comprised of two assets. The first asset is DEN's equity method investment in TAG. The second asset is an acquired intangible asset, with an amortization period of 23 years, representing a favorable Operation & Maintenance ("O&M") agreement. Both assets were valued using an income approach. For substantially all other assets and liabilities, the Company determined that historical carrying value approximates fair value due to their short-term nature.

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

	As of 11/15/17
Consideration paid in cash	$ 164,752
Plus: Acquisition costs paid	143
Less: balances of cash and cash equivalents acquired, net of acquisition costs	(17,257)
Consideration paid in cash, net	$ 147,638

11.4. Don Diego Solar Netherlands, B. V ("Don Diego"), asset acquisition

On February 28, 2018, IEnova acquired 100 percent of the shares of Fisterra Energy Netherlands II,B.V. ("Fisterra") at a value of $5.1 million, which was renamed to Don Diego after the acquisition. Don Diego, a 125 MW solar project facility in Benjamin Hill municipality in the state of Sonora, Mexico, is comprised of a Self-Supply Permit granted by the CRE in 2016. The Self-Supply Permit allows generators to compete directly with the CFE retail tariffs and thus have access to Power Purchase Agreements ("PPAs") with significantly higher prices.

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	$ 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, 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 paid on February 5, 2019, after the Company issued the final notice for the assigned Engineering Procurement and Construction contract.

11.5. Central Fotovoltaica Border del Norte. S. A. de C. V. ("Border Solar"), asset acquisition

On August 14, 2018, IEnova acquired 100 percent of the shares of Border Solar at a value of $3.6 million. Border Solar is comprised of a Self-Supply Permit granted by the CRE in 2015. The Self-Supply permit allows generators to compete directly with CFE's retail tariffs and thus have access to PPAs with significantly higher prices.

The primary purpose of the transaction was for the Company to further grow its renewable energy business through the purchase of Border Solar to develop a photovoltaic solar electric generating project located in Ciudad Juarez, Chihuahua, Mexico with a nominal capacity rating of approximately 150 Megawatt Alternating Current ("MWac") / 192 Megawatt Direct Current ("MWdc").

According to the purchase and sale agreement, the acquisition date was subject to the subsequent condition, which consisted in the seller to complete the subdivision of the land that was completed on August 14, 2018.

This transaction was accounted as an asset acquisition because Border Solar 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
Border Solar	Energy infrastructure investments / Development of solar project	August 14, 2018	100%	$3,580

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

	As of 08/14/18
Fair value of assets acquisition:	
Cash consideration (i)	$ 3,580
Total fair value of assets acquisition	$ 3,580
Tax receivables	514
Intangible assets	5,490
Current liabilities	(2,424)
Total identifiable, net assets	$ 3,580

Valuation of Border Solar assets and liabilities. Border Solar 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 LIE, which requires the renewable power facilities to pay higher tariffs/ charges, including transmission, 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 08/14/18
Cash consideration, net (i)	$ 3,580

(i) There was a cash payment for an amount of $0.5 million at the closing of the acquisition, and the remaining amounts will become due and payable as follows:

- $ 1.7 million subject to the execution of a PPA.
- $ 0.6 million at the start of project construction.
- $ 0.7 million on the date on which the project reaches commercial operation.

11.6. ICM, asset acquisition

On September 26, 2018, IEnova signed a purchase-sale agreement with Trafigura Holdings, B.V. ("Trafigura") for 51 percent of the shares of ICM, at a value of $16.4 million and Trafigura retained the remaining 49 percent of the equity of ICM.

The purpose of the acquisition is to develop, construct, own and operate a refined hydrocarbon products terminal in Manzanillo, Colima, Mexico. ICM owns certain permits and land where, the terminal for the receipt, storage and delivery of refined products will be built.

This transaction was accounted as an asset acquisition because ICM 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
ICM	Development of marine terminal project for the storage of refined products	September 26, 2018	51%	$16,442

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

	As of 09/26/18
Fair value of assets acquisition:	
Cash consideration	$ 16,442
Total fair value of assets acquisition	$ 16,442
Cash and cash equivalents	2
Taxes receivable	554
Other receivables	17
Property, plant and equipment (land)	28,832
Deferred income taxes	483
Current liabilities	(351)
Total identifiable, net assets	29,537
Non-controlling interest	$ (13,095)

Valuation of ICM's assets and liabilities. ICM substantially comprised of two assets of property plant and equipment that corresponds to five plots of land at the shore of the Pacific Ocean in Manzanillo, Colima, Mexico, equivalent to 87.92 hectares, where the marine terminal will be built. The assets were valued using an income approach. For substantially all other assets and liabilities, the Company determined that historical carrying value approximates fair value due to their short-term nature.

c. ***Non-controlling interest***

The non-controlling interest (49 percent ownership interest in ICM held by Trafigura) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to $13.1 million, this fair value was estimated by applying an income approach.

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

	As of 09/26/18
Cash consideration	$ 16,442
Less: balances of cash and cash equivalents acquired	(2)
Cash consideration, net	$ 16,440

12. Assets classified as held for sale and discontinued operations

i. In February 2016, the management of the Company 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.

Assets and liabilities held for sale corresponding to TDM are as follows:

	As of 12/31/17	12/31/16
Cash and cash equivalents	$ —	$ 434
Other assets	64,263	32,813
Total current assets	64,263	33,247
Deferred income tax assets	201	193
Other assets	1,515	1,125
Carbon allowance	2,272	22,089
Property, plant and equipment, net	79,939	134,633
Total non-current assets	83,927	158,040
Total assets	$ 148,190	$ 191,287
Current liabilities	$ 54,336	$ 7,974
Non-current liabilities	8,186	27,477
Total liabilities	$ 62,522	$ 35,451

As a result of the allocation in assets held for sale property, made during this year, the Company carried out a review of the recoverable amount of these assets. The review led to the recognition of an after-tax impairment loss of $63.8 and $136.9 million during 2017 and 2016 respectively, which have been recognized in the Consolidated Statements of Profit. The Company also estimated the fair value less costs of disposal of property, plant and equipment, which is based on the recent market prices of assets with similar age and obsolescence.

ii. On June 1, 2018, the management of the Company 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 sale were reclassified as held and used, and the depreciation of its fixed assets were resumed.

The property, plant and equipment has been measured at fair value as of the date of the subsequent decision not to sell, since the fair value was 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 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 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.

13. Goodwill

	As of		
	12/31/18	12/31/17	12/31/16
Cost	$ 1,638,091	$ 1,638,091	$ 1,638,091

There are no accumulated impairment losses. The breakdown of goodwill is as follows:

	As of		
Company	12/31/18	12/31/17	12/31/16
IEnova Pipelines	$ 1,497,008	$ 1,497,008	$ 1,497,008
Ventika	115,429	115,429	115,429
IGM	25,654	25,654	25,654
Total	$ 1,638,091	$ 1,638,091	$ 1,638,091

Allocation of goodwill to cash-generating units

IEnova Pipelines

Management expects IEnova Pipeline's acquisition to have strategic benefits, including opportunities for expansion into other infrastructure projects and larger platform and presence in Mexico to participate in energy sector. As such, IEnova Pipelines goodwill is tested at the Company's Cash Generated Unit ("CGU"), IEnova Transportation.

The Company used DCF analysis to determine the fair value of the CGU. The DCF includes cash flows through contracted period of the pipelines and the gas storage terminal exit multiple of 6.0x. The discount rate used was the weighted average cost of capital ("WACC") calculated in 7.8 percent. Under this approach, the value in use was greater to the carrying value. Based on that, no impairment was determined.

Ventika

Management expects Ventika's acquisition to have strategic benefits, including opportunities for expansion into other infrastructure projects and larger platform and presence in Mexico to participate in energy sector. As such, Ventika's goodwill is tested at the Company's CGU, IEnova Renewables.

There are no significant changes in Ventika's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management initial projections, b) there has not been a material change in macroeconomic indicators, and c) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

In the case of Ventika, the Company considered appropriate to use cash flows from the acquisition model and reviewed consistency with the actual results in 2017. The discount rate used was the WACC of 9.2 percent. Under this approach, the value in use is greater to the carrying value. Based on that, no impairment was determined.

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded a measurement period adjustment that resulted in a net decrease to goodwill of $13.7 million. (Please refer to Note 11.2.c.).

IGM

Goodwill has been allocated for impairment testing purposes to IEnova Gasoductos Mexico's CGU, which is included in the IEnova Transportation.

The recoverable amount of this CGU is determined based on a 10-year DCF analysis of IEnova Gasoductos Mexico's projected results. The DCF for 2018, 2017 and 2016, was calculated based on a long-term unlevered cash flow forecast using a discount rate of 7.8 percent, which was the same rate used at the acquisition date.

There are no significant changes in IEnova Gasoductos Mexico's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management's initial projections, b) the changes on the macroeconomic indicators may have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for Mexico), c) changes in the regulatory environment have not had adverse effect on the Company's operations and, d) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

Although, the Company's management believes the current discount rate may be lower as market rates have declined since the acquisition, the discount rate used as of the acquisition date was deemed to be a reasonable rate for goodwill impairment testing purposes.

14. Property, plant and equipment, net

	As of		
	12/31/18	12/31/17	12/31/16
Carrying amounts of:			
Buildings and plants	$ 4,273,297	$ 4,017,315	$ 3,110,525
Equipment	31,937	28,674	96,017
Other assets	135,580	117,279	59,670
	4,440,814	4,163,268	3,266,212
Accumulated depreciation and amortization	(851,313)	(545,148)	(433,074)
Land	124,908	82,389	82,404
Properties under construction	372,505	28,947	698,543
	$ 4,086,914	$ 3,729,456	$ 3,614,085

	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Cost						
Balance as of January 1, 2016	$ 76,524	$ 2,586,775	$ 86,965	$ 364,296	$ 38,843	$ 3,153,403
Assets held for sale	(674)	(436,077)	(7,525)	(533)	(2,935)	(447,744)
Additions	282	15,523	17,085	332,682	17,386	382,958
Business combination IEnova Pipelines (Refer to Note 11.1.)	6,026	296,520	—	—	8,750	311,296
Business combination Ventika (Refer to Note 11.2.)	252	673,531	—	—	—	673,783
Disposals	—	(1,021)	(164)	—	(738)	(1,923)
Effect of foreign currency translation	(6)	(26,882)	(344)	(724)	(1,636)	(29,592)
Revisions and additions to decommisioning liability	—	4,978	—	—	—	4,978
Balance as of December 31, 2016	$ 82,404	$ 3,113,347	$ 96,017	$ 695,721	$ 59,670	$ 4,047,159
Additions	13	886,917	192	(705,173)	33,318	215,267
Assets acquisition DEN (Refer to Note 11.3)	—	—	203	—	1,592	1,795
Disposals	(30)	(7,501)	(59)	(325)	(2,146)	(10,061)
Effect of foreign currency translation	2	(10,662)	—	16,013	837	6,190
Revisions and additions to decommisioning liability	—	10,814	—	—	—	10,814
Other	—	24,400	(67,679)	22,711	24,008	3,440
Balance as of December 31, 2017	$ 82,389	$ 4,017,315	$ 28,674	$ 28,947	$ 117,279	$ 4,274,604
Additions	12,982	27,863	110	360,893	12,065	413,913
Assets acquisition ICM (Refer to Note 11.6)	28,832	—	—	—	—	28,832
Effect of TDM reclassification to held and used (Refer to Note 12)	733	235,007	966	523	12,695	249,924
Disposals	(28)	(9,873)	—	(518)	(5,336)	(15,755)
Effect of foreign currency translation	—	351	72	(193)	9	239
Revisions and additions to decommisioning liability	—	(13,685)	—	—	—	(13,685)
Other	—	16,319	2,115	(17,147)	(1,132)	155
Balance as of December 31, 2018	$ 124,908	$ 4,273,297	$ 31,937	$ 372,505	$ 135,580	$ 4,938,227
Accumulated depreciation						
Balance as of January 1, 2016	$ —	$ (523,842)	$ (10,606)	$ —	$ (23,115)	$ (557,563)
Assets held for sale	—	178,795	—	—	1,622	180,417
Eliminated on disposals of assets	—	271	111	—	270	652
Depreciation expense	—	(57,741)	(2,241)	—	(3,468)	(63,450)
Effect of foreign currency translation	—	6,732	186	—	886	7,804
Other	—	(934)	—	—	—	(934)
Balance as of December 31, 2016	$ —	$ (396,719)	$ (12,550)	$ —	$ (23,805)	$ (433,074)
Eliminated on disposals of assets	—	890	146	—	1,572	2,608
Depreciation expense	—	(102,805)	(911)	—	(6,745)	(110,461)
Effect of foreign currency translation	—	(1,314)	(234)	—	(666)	(2,214)
Other	—	(3,379)	3,579	—	(2,207)	(2,007)
Balance as of December 31, 2017	$ —	$ (503,327)	$ (9,970)	$ —	$ (31,851)	$ (545,148)
Eliminated on disposals of assets	—	1,591	11	—	866	2,468
Effect of TDM reclassification to held and used (Refer to Note 12)	—	(180,017)	(404)	—	(1,209)	(181,630)
Depreciation expense	—	(117,446)	(974)	—	(8,419)	(126,839)
Effect of foreign currency translation	—	(5)	1	—	(3)	(7)
Other	—	(45)	—	—	(112)	(157)
Balance as of December 31, 2018	$ —	$ (799,249)	$ (11,336)	$ —	$ (40,728)	$ (851,313)

The additions to property, plant and equipment during 2018, 2017 and 2016, are mainly comprised of construction in process, related to the following projects:

- Solar - Pima, Tepezala II and Rumorosa (Please refer to Note 1.2.13.).
- Terminals - Veracruz, Puebla, Mexico City and Baja California (Please refer to Note 1.2.13.).
- Pipelines - Compression station, in Sonora.
- Pipelines - San Isidro - Samalayuca (COD on March 31, 2017)
- Pipelines - Guaymas - El Oro (COD on May19, 2017)
- Pipelines - El Empalme pipeline branch (COD on June 24, 2017)
- Pipelines - Ojinaga - El Encino (COD on June 30, 2017)

As of December 31, 2018, 2017 and 2016, additions of property, plant and equipment that were not paid, amount to $63.6 million, $41.7 million and $49.8 million, respectively.

Borrowing cost. During the years ended December 31, 2018, 2017 and 2016 the Company capitalized borrowing costs on qualifying assets in the amount of $10.7 million, $10.2 million and $14.8 million, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 4.02 percent, 2.98 percent and 3.33 percent, for the years ended December 31, 2018, 2017 and 2016, respectively.

14.1. Useful lives of property, plant and equipment

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility [1]	5-45
Plant and equipment for wind power generation facilities [1]	20-30
Pipelines system for transportation and distribution of gas [1]	34-50
Plant and equipment for generation of electricity [1]	37
Fiber optic network [2]	5-20
Leasehold improvements [2]	3-10
Machinery and other equipment [2]	3-10
Other assets [2]	3-20

1 Useful lives related to plant and equipment category
2 Useful lives related to other assets category

15. Intangible assets

	As of		
	12/31/18	12/31/17	12/31/16
Carrying amounts of:			
Renewable transmission rights (a)	$ 164,622	$ 154,144	$ 154,144
O&M contract (b)	44,566	44,566	—
Amortization	(18,416)	(8,511)	—
	$ 190,772	$ 190,199	$ 154,144

a. *Renewable transmission rights*

On December 14, 2016, regarding Ventika's 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 11.).

On August 14, 2018, the Company acquired a $5.5 million intangible asset related to Self-Supply Permit of the Border Solar Project. (Please refer to Note 11.).

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 to Ventika and 15 years to Don Diego and Border Solar.

b. ***O&M Contract***

In November 2017, the Company, through DEN's asset acquisition, acquired a $44.6 million 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. (Please refer to Note 11).

16. Trade and other payables

	As of		
	12/31/18	12/31/17	12/31/16
Trade payables	$ 99,713	$ 72,603	$ 93,731
Other miscellaneous payables	44	35	835
	$ 99,757	$ 72,638	$ 94,566

The average credit period on purchases of goods and services is between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

17. Employee benefits

17.1. Defined contribution component

The Company provides a defined contribution plan for all permanent full-time employees in Mexico. Employees that leave the Company obtain the capital accumulated with the contributions according to the following vesting schedule: a) Basic Contribution: 100 percent immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100 percent in case of death or disability, and in case of voluntary termination according with the Company policy.

17.2. Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in Mexico. Under the plans, the employees are entitled to retirement benefits varying between 55 percent and 100 percent of their final salary upon reaching the retirement age of 65 years. No other post-retirement benefits are provided to these employees.

17.3. Seniority premium benefits

The Company provides seniority premium benefits, which consist of a lump sum payment of 12 days of wages per each year worked, calculated using the employee's most recent salary, not to exceed twice the minimum wage established by law.

17.3.1. Costs and obligations for post-employment and other long-term employee benefits

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at		
	12/31/18	12/31/17	12/31/16
Discount rates	9.75%	8.25%	8.00%
Expected rates of salary incrase	4.75%	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%	3.75%
Exchange rate	$ 18.81	$ 18.20	$ 19.72

Amounts recognized within current earnings and OCI as well as benefits paid with respect to the Company's post-employment and other long-term employee benefits were as follows:

	As of		
	12/31/18	12/31/17	12/31/16
Current service cost recognized in administrative and other expenses	$ 836	$ 155	$ 646
Interest on obligation recognized in finance costs	528	457	345
Actuarial gains recognized in OCI	519	704	1,765

The amount included in the Consolidated Statements of Financial Position arising from the Company's obligation related to its defined benefit plans, and changes in the present value of the defined benefit obligation in the current year, were as follows:

	As of		
	12/31/18	12/31/17	12/31/16
Opening defined benefit obligation	$ 6,537	$ 5,586	$ 4,295
Current service cost	836	105	585
Interest benefit	528	422	309
Actuarial (gain) loss	(519)	482	435
Payment	310	—	115
Benefits paid	(49)	(58)	(153)
Ending defined benefit obligation	$ 7,643	$ 6,537	$ 5,586

18. Other financial liabilities

	As of		
	12/31/18	12/31/17	12/31/16
Accrued interest payable (a)	$ 22,454	$ 6,959	$ 4,855
Customer deposits	2,266	1,333	1,022
Guarantee liability (b)	—	2,080	—
	$ 24,720	$ 10,372	$ 5,877

a. Balance represents accrued interest payable on long-term debt. (Please refer to Note 23.).

b. IEnova and its partner on the Sur of Texas-Tuxpan natural gas pipeline, Transcanada, have a jointly guaranteed obligation for constructions services during the construction of the pipeline. (Please refer to Note 10.3.).

19. Other liabilities

	As of 12/31/18	12/31/17	12/31/16
Wages and benefits payable	$ 21,302	$ 19,012	$ 14,995
Deferred revenue (a) and (b)	11,983	—	—
Contractor withholdings	6,771	619	13,866
Payable lease (c)	2,736	—	—
	$ 42,792	$ 19,631	$ 28,861
Other current liabilities	$ 28,073	$ 19,631	$ 28,861
Other non current liabilities	14,719	—	—
	$ 42,792	$ 19,631	$ 28,861

a. Corresponds to Guaymas-El Oro pipeline unrendered services for an amount of $7.6 millions. It is expected to place in operation by the end of 2019.

b. Corresponds to San Isidro-Samalayuca contract unrendered services for an amount of $4.3 millions.

c. Corresponds to fixed monthly contribution of API Veracruz given land use.

20. Provisions

	As of 12/31/18	12/31/17	12/31/16
Decommissioning liabilities (a)	$ 54,443	$ 58,654	$ 41,618
Other provisions (b)	7,711	8,950	10,347
	$ 62,154	$ 67,604	$ 51,965
Current	$ 251	$ 394	$ 930
Non-current	61,903	67,210	51,035
Total provisions	$ 62,154	$ 67,604	$ 51,965

	Asset retirement obligations	Others	Total
Balance as of January 1, 2016	$ 34,236	$ 1,293	$ 35,529
Additional provisions recognized	1,705	9,380	11,085
Increase of financial cost	1,745	—	1,745
Payments and other decreases in provisions recognized	—	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	3,932	—	3,932
Balance as of December 31, 2016	$ 41,618	$ 10,347	$ 51,965
Additional provisions recognized	4,239	—	4,239
Increase of financial cost	1,983	—	1,983
Payments and other decreases in provisions recognized	—	(1,397)	(1,397)

	Asset retirement obligations	Others	Total
Unwinding of discount and effect of changes in the discount rate	10,814	—	10,814
Balance as of December 31, 2017	$ 58,654	$ 8,950	$ 67,604
Recognition of provision on TDM reclassification to held and used	6,922	—	6,922
Increase of financial cost	2,552	—	2,552
Payments and other decreases in provisions recognized	—	(1,239)	(1,239)
Unwinding of discount and effect of changes in the discount rate	(13,685)	—	(13,685)
Balance as of December 31, 2018	$ 54,443	$ 7,711	$ 62,154

a. ***Decommissioning liabilities***

For long-lived assets, the Company recognized decommissioning liabilities for the present value of future costs expected to be incurred when assets are withdrawn from service, if the Company has a legal or constructive obligation and if the Company can make a reasonable estimate of that obligation. The discount rates used by the Company were 4.64 percent, 3.90 percent and 4.54 percent as of December 31, 2018, 2017 and 2016, respectively.

b. ***Other provisions***

The balance of other provisions include a liability by $0.3 million due to an onerous contract representing the present value of future losses that the Company expects to incur under one of their service contracts. Because the related asset is operating below full capacity, management of the Company utilized a present value model to determine the provision utilizing a discount rate of 10 percent.

As of December 31, 2018, the balances of the Specific Services Contract ("CSE") related to the authorized provision stipulated under the O&M contract with Pemex TRI regarding the acquisition of materials, spare parts and services for the maintenance of the pipelines transportation system amounts $7.4 million.

21. 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 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 Consolidated Statement of Financial Position as the allowances are surrendered.

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

Assets:	As of 12/31/18
Current	$ 5,936
Non-current	15,499
	$ 21,435

Liabilities (a):	
Current	$ 6,354
Non-current	14,826
	$ 21,180

a. Cost of carbon allowances of $21.9 millions, $16.5 millions and $12.8 millions were recorded in cost or revenue, for the years ended December 31, 2018, 2017 and 2016, respectively.

22. Short-term debt

As of December 31, 2018, 2017 and 2016, short-term debt includes the following:

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Credit agreement (a)	$ 808,086	$ 137,053	$ 446,034
Current portion of IEnova Pipelines Bank Loan (Refer to Note 23.c.).	38,227	40,631	38,682
Current portion of Ventika Bank Loan (Refer to Note 23.d.)	25,973	22,588	13,482
Trina Solar (Refer to Note 23.g.).	28	—	—
CEBURES at variable rate (Refer to Note 23.a.).	—	65,871	—
	$ 872,314	$ 200,272	$ 498,198
Borrowing costs	(2,140)	(3,383)	(4,627)
	$ 870,174	$ 196,889	$ 493,571

a. ***Credit agreement.*** On August 21, 2015, the Company entered into an agreement for a $400.0 million, U.S. Dollar-denominated, five-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lenders are Banamex, SMBC, Santander, The Bank of Tokyo and The Bank of Nova Scotia.

Withdrawal of credit line. In June and July 2016, the Company withdrew $20.0 million and $380.0 million, respectively, of the credit line to be used for working capital and general corporate purposes. In December 2016, the Company withdrew $375.0 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On October 21, 2016, the Company paid $250.0 million of the credit agreement.

On November 3, 2016, the Company renegotiated the credit line of the credit agreement for an amount up to $1,170.0 million, U.S. Dollar-denominated. On December 30, 2016, a portion of this revolving credit was repaid in the amount of $200.0 million.

On November 14, 2017, the Company withdrew $260.0 million, a portion of this disposition was used to finance the acquisition of DEN. (Please refer to Note 11.3.).

On December 14, 2017, with the proceeds received from the Senior Notes offering the Company paid a portion of this revolving credit by $730.0 million. (Please refer to Note 23.f.).

As of December 31, 2018, 2017 and 2016, the available unused credit portion was $362.0 million, $1,033.0 million and $724.0 million, respectively.

b. ***Financing of project's VAT*** - On April 8, 2014, Ventika entered into a line of credit with NAFINSA and BANCOMEXT, as lenders. On December 17, 2015, there was an amendment to increase the line for up to $569.4 million Mexican Pesos and $713.3 million Mexican Pesos, respectively. Interest was accrued at the TIIE plus 250 BPS payable on a quarterly basis. The credit line under this contracts was used to

finance the VAT on the Ventika's projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.

23. Long-term debt

As of December 31, 2018, 2017 and 2016, long-term debt includes:

	As of		
	12/31/18	12/31/17	12/31/16
Senior Notes (f)	$ 840,000	$ 840,000	$ —
Santander – Ventika (d, e)	426,359	451,248	472,781
BBVA Bancomer, S. A. de C. V. ("Bancomer") – IEnova Pipelines (c)	239,513	—	—
CEBURES at fixed rate (a, b)	198,142	277,175	317,279
Trina Solar (g)	3,757	—	62,911
CEBURES at variable rate (a, b)	—	197,614	188,734
	$ 1,707,771	$ 1,766,037	$ 1,041,705
Debt issuance costs	(32,579)	(33,997)	(1,901)
	$ 1,675,192	$ 1,732,040	$ 1,039,804

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 fixed rate of 6.30 percent, with semi-annual payment 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 December 31, 2018, 2017 and 2016, was 6.93 percent, 7.25 percent and 4.64 percent, respectively.

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

For this debt, which was scheduled to mature in 2018, the Company entered into a derivative instrument contract and swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The Company received $1,300.0 million Mexican Pesos and paid $102.2 million U. S. Dollars. The repayment ended the hedging contract and 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 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 in 2018.

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

As of December 31, 2018, the swaps' 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 U. S. Dollars, the proceeds of which will be used to develop the IEnova Pipelines

projects in process. The four participating credit institutions are Bancomer with a 50 percent contribution, The Bank of Tokyo with 20 percent, Mizuho with 15 percent and NORD/LB with 15 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 LIBOR plus 2.75 percent.

As of December 31, 2018, the long term debt maturity are as follows:

Year		Amount
2019	$	38,227
2020		42,213
2021		45,054
Thereafter		152,247
	$	277,741

In such credit, IEnova Pipelines was defined as debtor, TDF together with GdT were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by 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:

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 Consolidated Financial Statements, the Company has complied with these obligations.

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

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

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, the NADB, Banco Nacional de Obras y Servicios Publicos, S. N. C. Institucion de Banca de Desarrollo ("BANOBRAS"), 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	3/15/2024
BANOBRAS	3/15/2032
NADB	3/15/2032
BANCOMEXT	3/15/2032
NAFINSA	3/15/2032

The breakdown of the debt is as follows:

Bank		As of 12/31/18
NADB	$	135,666
SANTANDER		92,701
BANOBRAS		87,214
BANCOMEXT		67,833
NAFINSA		67,833
Interest payable		1,085
	$	452,332

e. ***Interest Rate Swaps.*** In order to mitigate the impact of interest rate changes, Ventika entered into interest rate swaps with Santander and BANOBRAS; this allows Ventika to have almost 92.0 percent of the mentioned credit facilities above fixed. The swap contracts allow for the Company to pay a fixed interest rate of 2.94 percent and 3.68 percent, respectively, and to receive variable interest rate (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 payment 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 payment of interest, maturing in 2048.

As of December 31, 2018, the debt issuance costs amounts $32.6 million.

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

g. ***Trina Solar - ESJ Renovable I. S. de R. L. de C. V.*** On July 31, 2018, the Company, signed a credit contract with Trina Solar Holdings, B. V. The amount of the loan is for $3.7 million, the proceeds will be used to develop the Tepezala II Solar Project. The maturity of the loan is 10 years.

The loan can be totally paid at the end of the credit contract or partially paid throughout the contract term. The loan bears an interest at three - month LIBOR plus 365 BPS, with quarterly payments, maturing in 2028.

24. Financial instruments

24.1. Capital management

The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends.

The Company is subject to externally imposed capital requirements for its regulated subsidiaries in the gas segment. According to applicable regulations the subsidiaries need to include in their bylaws the

requirement to have a minimum fixed capital, without withdrawal rights, equivalent to 10 percent of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its projects. As of December 31, 2018, 2017 and 2016, the Company had complied with the above requirements.

24.2. Categories of financial instruments

	As of		
	12/31/18	12/31/17	12/31/16
Financial assets			
Cash and cash equivalents	$ 51,681	$ 37,208	$ 24,918
Short term investment	83	1,081	80
Restricted cash	26,283	55,820	51,363
FVTPL			
Held for trading	17,703	9,146	8,120
Amortized cost			
Loans and receivables	844,989	613,280	218,214
Financial leasing	942,184	950,310	957,466
Financial liabilities			
FVTPL			
Held for trading	$ 163,823	$ 204,170	$ 226,161
Amortized cost	3,055,700	2,695,537	1,897,812

24.3. Financial risk management objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program.

The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

24.4. Market risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The Parent's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily

monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and,
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

24.5. Value at Risk ("VaR") analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95.0 percent confidence interval in its VaR calculations.

The one-day 95.0 percent VaR number reflects the 95.0 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

	As of		
VaR History (95%, one day) by risk type	**12/31/18**	**12/31/17**	**12/31/16**
Interest rate swap and commodities	$ 2,258	$ 2,581	$ 4,025
Total VaR exposure	$ 2,145	$ 2,452	$ 3,824

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95.0 percent confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.
While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.1.

24.6. Commodity price risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, gas pipelines and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. (Please refer to Note 24.4.).

24.7. Foreign currency risk management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it also has balances in Mexican Pesos held by its U. S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	Financial assets		
	As of		
	12/31/18	12/31/17	12/31/16
U. S. Dollar functional currency subsidiaries	$ 907,113	$ 746,038	$ 171,462
Mexican Peso functional currency subsidiaries	32,146	33,594	19,900

	Financial liabilities		
	As of		
	12/31/18	12/31/17	12/31/16
U. S. Dollar functional currency subsidiaries	$ 860,870	$ 853,067	$ 779,000
Mexican Peso functional currency subsidiaries	31,325	26,478	34,012

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, income tax receivables or payables, prepaid expenses, guarantee deposits, intercompany loans, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican Peso functional currency subsidiaries, their U.S. Dollar balances include: bank accounts, intercompany loans, trade accounts receivables or payables and provisions.

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

	Mexican Pesos			
	12/31/18	12/31/17	12/31/16	02/19/19
One U.S. Dollar	$ 19.6829	$ 19.7354	$ 20.6640	$ 19.3625

24.7.1. Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 24.7. are exposed to the Mexican Peso for its U. S. Dollar functional currency subsidiaries and to the U. S. Dollar for its Mexican Peso functional currency subsidiaries.

The following table details the Company's profit and OCI sensitivity to a 10.0 percent increase and decrease in the U. S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10.0 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10.0 percent change in foreign currency rates. The

sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U. S. Dollar strengthens 10.0 percent against the Mexican Peso for U. S. Dollar functional currency subsidiaries. For a 10.0 percent weakening of the U. S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U. S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U. S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U. S. Dollar strengthens 10.0 percent against the Mexican Peso. For a 10.0 percent weakening of the U. S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. Dollar functional currency			Mexican Peso functional currency		
	2018	2017	2016	2018	2017	2016
Profit (loss) (i)	$ 2,943	$ 6,811	$ 38,662	$ 52	$ (453)	$ 898
OCI	—	—	—	414	2,580	(9,486)

(i) This is mainly attributable to the exposure to outstanding Mexican Peso receivables in the U. S. Dollar functional currency subsidiaries at the end of each reporting period.

The U. S. Dollars functional currency subsidiaries sensitivity to foreign currency decreased mainly due to higher intercompany loans with unconsolidated affiliates.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has increased mainly due to higher trade and other trade receivables balances.

24.8. Interest rate risk management

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450.0 million from third parties for ECA, which were designated as cash flow hedges.

In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of $30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item.
As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of $151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5.0 percent.

The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a prepayment in the amount of $29.8 million and as a result, such derivative was canceled. The one-year VaR information related to the interest rate swap is included in Note 24.5.

24.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

As described in Note 10.2.b. the joint venture with Saavi Energia entered into a swap contract that effectively hedges the interest rate risk due to variable rate financings.

As described in Note 10.5.b. the joint venture with BlackRock entered into swap contract that effectively hedges the interest rate risk due to variable rate financings.

The fair value of derivative instruments is based on the market values in place as of the date of the Consolidated Financial Statements, which impacts investment in joint venture with a debit to current earnings.

The Company's management considers the results of the sensitivity analysis for these derivatives to be imaterial.

24.9. Credit risk management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In ECO, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, (which are confirmed); and,
- Registration with tax agency for commercial customers with minor consumption.

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and,
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100.0 percent of the balances of major customers by the credit and collection department, to make sure that payments are made on a timely manner and to ensure that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty's nonperformance.
For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.
Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements and, therefore, rely on these agreements for future performance.

24.9.1.Concentration of credit risk

The Company conduct their businesses based upon ongoing evaluations of their customers' financial conditions and certain guarantees, except when such clients qualify for credit based on their long-term debt credit ratings issued by S&P's or other credit rating agency in the U. S. or Canada.

The management believes that the risk arising from its concentration of credit is mitigated since all of their major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

The following table shows the Company's revenue concentration by customer:

	Segment	12/31/18	12/31/17	12/31/16
Customer 1	Gas	$ 317,805	$ 317,055	$ 226,496
Customer 2	Power & Gas	218,126	142,445	—
Customer 3	Gas	171,666	168,937	40,592
Customer 4	Gas	143,026	113,086	6,143
Customer 5	Gas	123,366	114,093	30,040
Customer 6	Gas	98,435	103,043	101,998
Customer 7	Gas	84,846	87,160	88,646
Customer 8 *	Power	36,353	35,389	3,594
Customer 9	Gas	36,723	36,397	35,839
Customer 10	Power	—	—	110,576
Others **		138,209	105,300	123,165
		$ 1,368,555	$ 1,222,905	$ 767,089

* Please refer to Note 12.

** Within others, there are no customers with revenue concentration greater than 9.0 percent.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result, the Company's management does not estimate the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2018, 2017 and 2016, was $350.9 million, $313.6 million and $190.2 million, respectively.

24.10. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Parent's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2018, the projects were funded with resources obtained from the Global Offering (Note 1.2.2.), unconsolidated affiliates loans and bank financing. The Company's current liabilities exceed its current assets mainly due to loans from unconsolidated affiliates and short-term debt. As explained in Notes 6 and 22, the Company had $1,033.0 million of unused lines of credits with banks.

24.10.1.Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturity, which is the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
December 31, 2018						
Variable interest rate from banks (SMBC)		$ 808,086	$ —	$ —	$ —	$ 808,086
Variable interest rate from banks (International debt 10 years)	3.75	11,250	33,750	56,250	300,000	401,250

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
Variable interest rate from banks (International debt 30 years)	4.88	26,325	78,975	131,625	1,066,500	1,303,425
Fixed interest rate for long- term debt (Note 23)	6.3	12,483	37,449	199,286	—	249,218
Variable interest rate loan from banks (Ventika)	6.49	53,649	83,028	197,086	447,892	781,655
Variable interest rate loan from banks (GdC)	4.63	49,316	33,268	283,563	—	366,147
Variable interest rate for long-term (Trina)	6.07	256	684	1,140	3,862	5,942
		$ 961,365	$ 267,154	$ 868,950	$1,818,254	$3,915,723
December 31, 2017						
Variable interest rate from banks (SMBC)		$ 137,053	$ —	$ —	$ —	$ 137,053
Variable interest rate from banks (Senior Notes 10 years)	3.75	6,563	33,750	56,250	316,875	413,438
Variable interest rate from banks (Senior Notes 30 years)	4.88	15,356	78,975	131,625	1,105,988	1,331,944
Variable interest rate of short-term debt (Note 23.)	4.14	65,871	—	—	—	65,871
Fixed interest rate of long-term debt (Note 23.)	6.30	12,623	37,868	211,378	—	261,869
Variable interest rate loan from banks (Ventika)	5.60	48,211	76,868	210,235	472,467	807,781
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,642	39,034	341,697	—	434,373
		$ 339,319	$ 266,495	$ 951,185	$1,895,330	$3,452,329
December 31, 2016						
Variable interest rate from banks (SMBC)		$ 442,560	$ —	$ —	$ —	$ 442,560
Variable interest rate of short-term debt (Note 23.)	4.14	2,512	57,613	—	—	60,125
Fixed interest rate of long-term debt (Note 23.)	6.30	12,055	36,166	24,111	177,769	250,101
Variable interest rate loan from banks (Ventika)	5.59	38,767	75,855	50,570	645,630	810,822
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,576	44,682	29,788	361,961	490,007
		$ 549,470	$ 214,316	$ 104,469	$1,185,360	$2,053,615

Prepayments on intercompany loans can be made at the Company's discretion.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn-up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates or commodity prices forward curves at the end of the reporting period.

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2018					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ 176	$ (1,920)	$ (159,750)	$ (2,909)	$ (164,403)
	$ 176	$ (1,920)	$ (159,750)	$ (2,909)	$ (164,403)

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2017					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)
	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)

	Less than 1 year	1-2 years	3-5 years	5+ years	Total
December 31, 2016					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)
	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)

24.11. Fair value of financial instruments

24.11.1.Fair value of financial instruments carried at amortized cost

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

	As of					
	12/31/18		12/31/17		12/31/16	
	Carrying amount	Fair value	Carrying amount	Fair Value	Carrying amount	Fair value
Financial assets						
Financial lease receivables	$ 942,184	$ 942,184	$ 950,310	$ 950,310	$ 957,466	$ 957,466
Due to unconsolidated Affiliates	691,340	696,626	535,945	592,727	117,328	103,965
Financial liabilities						

	As of					
	12/31/18		12/31/17		12/31/16	
	Carrying amount	Fair value	Carrying amount	Fair Value	Carrying amount	Fair value
-Financial liabilities held at amortized cost:						
-Long-term debt (traded in stock exchange)	1,038,142	865,710	1,037,614	998,995	249,744	232,812
-Loans from banks long-term	669,629	675,801	728,423	849,486	790,060	678,649
-Due from unconsolidated affiliates (Short-term)	310,696	310,694	554,497	553,558	260,914	257,589
-Short-term debt	872,314	872,314	266,143	266,143	498,198	491,879
-Loans from unconsolidated affiliates (Long-term)	75,161	67,963	73,510	69,967	3,080	3,080

24.11.2. Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of finance lease receivables is determined by calculating the present value of the minimum lease payments, including the contract extension period, using the discount rate that represents the Company's internal rate of return on capital investments.

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

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

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

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

24.11.3. Fair value measurements recognized in the Consolidated Statements of Financial Position

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined in Note 2.2.b.

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:

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

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

- 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 2 in the fair value hierarchy as shown below:

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Financial assets at FVTPL			
Short-term investments (Level 1)*	$ 26,366	$ 56,901	$ 51,443
Derivative financial assets (Level 2)	17,620	8,065	8,040
Financial liabilities at FVTPL			
Derivative financial liabilities (Level 2)	163,823	204,170	226,161

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 $23.3 million, $55.8 million and $51.4 million as of December 31, 2018, 2017 and 2016, respectively.

24.11.4. Commodities and other derivative positions

The Company enters into derivative financial instrument agreements to hedge the volatility of its income tax impact attributable to the fluctuation of the Mexican Peso relative to the U. S. Dollar. Certain monetary assets and liabilities of the Company are denominated in U. S. Dollars (functional currency); however, they are remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability.

The Company recognized the change in fair value and the settlements in the "cost of revenue" line item within the Consolidated Statements of Profit.

25. Income taxes

The Company is subject to ISR. The rate of current income is 30 percent.

25.1. Income taxes recognized in the Consolidated Statements of Profit:

	As of		
	12/31/18	12/31/17	12/31/16
Current income tax:			
ISR	$ (113,683)	$ (39,376)	$ (102,950)
IETU-IMPAC	—	(205)	—
	(113,683)	(39,581)	(102,950)
Deferred Income tax:			
Deferred income tax	(29,381)	(64,582)	(14,395)
Total taxes in the Consolidated Statements of Profit	$ (143,064)	$ (104,163)	$ (117,345)

Income tax expense is reconciled with the profit before tax as follows:

	Year ended		
	12/31/18	12/31/17	12/31/16
Profit before income tax and share of profits of joint ventures	$ 535,666	$ 413,660	$ 829,494
Income tax expense calculated at 30%	(160,700)	(124,098)	(248,848)
Non-deductible expenses	(1,985)	(2,880)	(2,546)
Effects of foreign exchange rate	513	(17,806)	38,884
Effects of inflation adjustment	(28,076)	(32,341)	(8,779)
Effect of unused tax losses not recognized as deferred income tax asset	2,279	(25,965)	(23)
Effect of the remeasurement of equity method investment	—	—	201,921
Non-taxable income	—	368	1,055
Effect of foreign exchange rate and inflation on the tax bases of property, plant and equipment, net and unused tax losses	55,180	98,880	(97,792)
Other	(10,275)	(321)	(1,217)
Income tax expense recognized in the Consolidated Statements of Profit	$ (143,064)	$ (104,163)	$ (117,345)

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

- 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.
- The effect of exchange rate changes in the tax basis of property, plant and equipment, which 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.
- The inflationary effects relative to certain monetary assets and liabilities.
- Tax losses used or not recognized as deferred taxes.

25.2. Income tax recognized directly in common stock and OCI

	Year ended		
	12/31/18	12/31/17	12/31/16
Recognized directly in common stock:			
Issuance or ordinary shares under IPO and Follow-on	$ —	$ 17,851	$ 10,463
Recognized directly in OCI:			
Tax related to actuarial gain on defined benefit plans	(156)	(211)	(530)
Tax on valuation of financial instruments held for hedging purposes	(4,605)	(2,357)	(5,459)
Total of income tax recognized directly in common stock and OCI	$ (4,761)	$ 15,283	$ 4,474

25.3. Deferred income tax assets and liabilities balances

The following is the analysis of deferred income tax assets (liabilities) presented in the Consolidated Statements of Financial Position:

	As of		
	12/31/18	12/31/17	12/31/16
Deferred income tax assets:			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	$ 72,497	$ 171,015	$ 265,310
Accrued expenses and provisions	21,582	43,381	28,940
Effect of business combination IEnova Gasoductos Mexico	1,355	1,453	1,550
Employee benefits	6,845	5,941	4,835
Inventories	1,909	2,768	3,861
Allowance for doubtful accounts	159	139	123
Deferred income tax assets for issuance or ordinary shares under IPO and follow on	17,851	17,851	17,851
Deferred income tax asset regarding valuation of financial instruments held for hedging purposes	6,593	10,360	19,899
Others	—	—	(1,720)
Total deferred income tax assets	128,791	252,908	340,649
Deconsolidation effect (a)	(47,938)	(155,574)	(250,961)
Deferred income tax asset	$ 80,853	$ 97,334	$ 89,688
Deferred income tax liabilities:			
Property, plant and equipment	$ (228,634)	$ (318,297)	$ (340,451)
Finance leases	(282,525)	(285,000)	(287,240)
Effect of assets fair value and intangible of Ventika	(83,054)	(86,241)	(88,355)
Prepaid expenses	(4,396)	(4,693)	(11,263)
Other	(16,221)	(12,957)	(13,259)
Total deferred income tax liabilities	(614,830)	(707,188)	(740,568)
Deconsolidation effect (a)	47,938	155,574	250,961
Deferred income tax liabilities	$ (566,892)	$ (551,614)	$ (489,607)

a. The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and, therefore, they are presented separately in the Consolidated Statements of Financial Position as of December 31, 2018, 2017 and 2016.

During 2017, the Company has not recognized a deferred tax asset in the amount of $15.2 million generated from the deductible temporary differences between book value and tax basis as a result of the decision to sale the partnership interest in TDM.

Additionally, the Company has not recognized a deferred tax asset in the amount of $23.4 million generated from the deductible temporary differences between book value and tax basis of TDM.

The Company considers that there are no sufficient taxable profits available to recognize all or part of the deferred tax asset.

25.4. Deferred income tax in the Consolidated Statements of Financial Position

The following is an analysis of the deferred tax assets (liabilities) included in the Consolidated Statements of Financial Position:

	As of		
	12/31/18	**12/31/17**	**12/31/16**
Assets	$ 80,853	$ 97,334	$ 89,688
Liabilities	$ (566,892)	$ (551,614)	$ (489,607)
	$ (486,039)	$ (454,280)	$ (399,919)

Deferred tax assets have been recognized for tax-loss carryforwards and the IMPAC paid which provide for future tax benefits in the form of future deductible amounts and tax credits, respectively, and can be realized subject to compliance with certain requirements. Expiration dates and restated amounts as of December 31, 2018, are as follows:

Years	**Tax-Loss Carryforwards**	**IMPAC Recoverable**
2019	$ 1,675	$ 147
2020	1,630	147
2021	1,358	147
2022	537	147
2023	458	147
2024	2,243	147
2025	19,696	147
2026	206,996	147
2027	1,241	147
2028	5,824	151
	$ 241,658	$ 1,474

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $241.7 million and $1.5 million respectively.

25.5. Current tax receivable and payable

	As of 12/31/18	12/31/17	12/31/16
Current tax assets:			
ISR receivable	$ 74,806	$ 81,909	$ 6,390
Current tax liabilities:			
ISR payable	$ (63,044)	$ (3,384)	$ (13,322)

26. Stockholders' equity

	As of 12/31/18	12/31/17	12/31/16
Common stock	$ 963,272	$ 963,272	$ 963,272
Additional paid-in equity	2,351,801	2,351,801	2,351,801
	$ 3,315,073	$ 3,315,073	$ 3,315,073

26.1. Issued member's equity is comprised as follows:

Pursuant to a resolution of the general ordinary member's meeting on February 15, 2013, member's equity increase was approved at $1.00 Mexican Peso per share, which was subscribed and paid by SEH an unconsolidated affiliate, increasing the value of its social part; also, Company's name change from Sempra Mexico, S. de R. L. de C. V. to "Sociedad Anonima de Capital Variable" ("S. A. de C. V.", Public limited Company) was approved. As a result of such resolution, the change of social parts for shares was performed; as of February 15, 2013, the distribution of such shares was as follows:

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

Shareholder's equity consists of nominative shares with no-par value. The theoretical value per share is $10.00 Mexican Pesos. The Class I and II represent the fixed and the variable part of shareholder's equity, respectively. Variable capital may be increased without limitation.

On March 6, 2013, SEH subscribed for a capital increase in SEMCO (a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova's shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry ("RNV", by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova's shares with the RNV, SEMCO acquired 100-percent of the Shares of SEH pursuant to the above described terms; therefore, beginning on this date, SEMCO was the new Parent Company of IEnova.

On March 21, 2013, the Company carried out a Global Offering of shares. Through such Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Mexican Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was $520,707 ($6,448.4 million Mexican Pesos).

In connection with the Global Offering, on March 27, 2013, the underwriters in Mexico and abroad exercised the over-allotment option. The amount of over-allotment was $78,106.0 ($967.0 million Mexican Pesos), related to 28,449,196 shares at the placement price of $34.00 Mexican Pesos per share.

On September 14, 2015, the Ordinary and Extraordinary Shareholder's Meeting approved the proposal of an equity offering through a combined global offering which consists of a public offering in Mexico to the general public and a concurrent international offering as defined by Rule 144A and in Regulation S, under the United States Securities Act of 1933.

In addition an equity increase was approved for up to $3,300.0 million Mexican Pesos in Ordinary and Extraordinary Shareholder's Meetings; of which 330 million ordinary shares were issued. As of December 31, 2015, such shares have been neither subscribed nor paid, and therefore no impacts have been reflected in the Consolidated Financial Statements.

26.2. Global Offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at $80.0 Mexican Pesos per share. After the Global Offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of offering costs, was approximately $1.6 billion U. S. Dollars. As a result of the Global Offering, the Company raised $30,400 million Mexican Pesos, net of issuance costs for $659.5 million Mexican Pesos ($34.8 million U. S. Dollars). Subsequent to the Company's Global Offering, subscribed and paid common stock of IEnova is represented by a total of 1,534,023,812 shares.

26.3. Formation of a repurchase fund its own shares

The Company's General Shareholders' Meeting celebrated on June 14, 2018, approved the formation of a fund to purchase the Company's own shares, considering an a maximum amount por that purpose as of December 31, 2018, of $250.0 million. As of December 31, 2018, the Company had repurchased 2,000,000 shares for a total of $7.2 million. The repurchased shares are held in the Company's treasury and cannot be released without board approval. As of December 31, 2018, the repurchase fund balance is for an amount of $242.8 million ($5,012 million Mexican Pesos).

		For the year ended December 31, 2018 and 2017 (Mexican Pesos)			
Company stockholder's	Number of shares	Fixed capital	Variable capital	Total	Total shares in USD
SEMCO	1,019,038,312	$ 50,000	$ 10,190,333,120	$ 10,190,383,120	$ 751,825
Private investors	514,985,500	—	5,149,855,000	5,149,855,000	211,447
	1,534,023,812	$ 50,000	$ 15,340,188,120	$15,340,238,120	$ 963,272

27. Declared dividends

During 2018, 2017 and 2016, pursuant to the resolution of Extraordinary Stockholders' Meetings, payments of dividends in cash were approved, to be paid from retained CUFIN balances. Under Mexican tax regulation, dividends paid from CUFIN balances are not taxed, dividends were declared and paid, for the following amounts:

Meeting date		Amount
July 24, 2018 (*)	$	210,000
July 25, 2017	$	200,000
August 9, 2016	$	140,000

* Dividends were paid on August 21, 2018.

27.1. Dividends per share

	Cents per share for year ended		
	12/31/18	12/31/17	12/31/16
IEnova	$ 0.14	$ 0.13	$ 0.11

28. Segment information

28.1. Products and services from which reportable segments derive 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 1.3.

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

28.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment revenues		
	Year ended		
	12/31/18	12/31/17	12/31/16
Gas:			
Revenues from customers	$ 919,783	$ 888,647	$ 548,947
Revenues from unconsolidated affiliates	138,752	103,043	101,998
Intersegment revenues	329,527	309,179	238,147
Power:			
Revenues from customers	99,592	99,164	12,315
Revenues from unconsolidated affiliates	208,652	130,192	101,192
Corporate:			
Allocation of professional services with affiliates	1,776	1,859	2,637
Intersegment professional services	34,974	29,970	29,484
	1,733,056	1,562,054	1,034,720
Intersegment adjustments and eliminations	(364,501)	(339,149)	(267,631)
Total segment revenues	$ 1,368,555	$ 1,222,905	$ 767,089

	Segment profit		
	Year ended		
	12/31/18	12/31/17	12/31/16
Gas	$ 445,259	$ 463,483	$ 912,370
Power	65,357	(34,316)	(104,900)
Corporate	(80,030)	(74,993)	(52,480)
Total segment profit	$ 430,586	$ 354,174	$ 754,990

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

28.3. Assets and liabilities by segment

	As of		
	12/31/18	12/31/17	12/31/16
Assets by segment:			
Gas	$ 6,705,011	$ 6,425,446	$ 5,716,175
Power	1,356,815	1,170,970	1,241,689
Corporate*	706,771	567,443	169,084
Consolidated total assets	$ 8,768,597	$ 8,163,859	$ 7,126,948
Liabilities by segment:			
Gas	$ 1,066,774	$ 1,031,448	$ 983,424
Power	655,386	652,502	641,479
Corporate*	2,292,687	1,963,322	1,151,734
Consolidated total liabilities	$ 4,014,847	$ 3,647,272	$ 2,776,637

**Corporate segment*

The chief decision makers have decided to reclassify retrospectively the amounts of $39.7 in assets and $0.8 in liabilities as of December 31, 2017, related to Liquid Terminals included in Corporate segment to the Gas segment, considering more appropriate to include operations and assets to this segment. (Please refer to Note 2.29.).

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

- All assets are allocated to reportable segments. Goodwill is allocated to reportable segments.
- All liabilities are allocated to reportable segments.

28.4. Other information by segment

	Property, plant and equipment			Accumulated depreciation		
	As of			As of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 3,777,923	$ 3,569,528	$ 3,354,683	$ (616,526)	$ (510,744)	$ (424,639)
Power	1,150,247	686,195	677,440	(232,776)	(24,885)	(1,807)
Corporate	19,685	18,881	16,191	(11,639)	(9,519)	(7,783)
	$ 4,947,855	$ 4,274,604	$ 4,048,314	$ (860,941)	$ (545,148)	$ (434,229)

	Depreciation and amortization			Additions to property, plant and equipment		
	Year ended			Year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 100,794	$ 86,182	$ 60,703	$ 218,811	$ 205,452	$ 692,853
Power	34,228	31,049	4,356	222,384	8,373	673,808
Corporate	2,135	1,789	1,547	1,550	3,237	1,376
	$ 137,157	$ 119,020	$ 66,606	$ 442,745	$ 217,062	$ 1,368,037

	Interest income			Finance (cost) income		
	Year ended			Year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 2,105	$ 813	$ 959	$ (12,074)	$ 3,371	$ 23,144
Power	804	963	1,176	(23,631)	(25,573)	(1,542)
Corporate	24,540	21,032	4,159	(87,174)	(51,299)	(42,694)
	$ 27,449	$ 22,808	$ 6,294	$ (122,879)	$ (73,501)	$ (21,092)

	Share of profits of joint ventures			Income tax (expense) benefit		
	Year ended			Year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 34,158	$ 41,094	$ 40,284	$ (107,875)	$ (97,340)	$ (132,951)
Power	3,826	3,583	2,557	(22,861)	(3,972)	30,889
Corporate	—	—	—	(12,328)	(2,851)	(15,283)
	$ 37,984	$ 44,677	$ 42,841	$ (143,064)	$ (104,163)	$ (117,345)

28.5. Revenue by type of product or services

The following is an analysis of the Company's revenue from its major type of product or service:

	Year ended		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Transportation of gas	$ 483,458	$ 438,277	$ 175,217
Power generation	307,039	229,934	113,127
Sale of natural gas	258,966	176,334	145,912
Other operating revenues	133,646	156,306	145,943
Storage and regasification capacity	112,923	109,837	97,168
Natural gas distribution	72,523	112,217	89,722
	$ 1,368,555	$ 1,222,905	$ 767,089

Other operating revenues

a. IEnova Marketing received payments from SLNGIH and SLNGI related to the losses and obligations incurred in the amount of $98.5 million, $103.0 million and $102.0 million for the years ended December 31, 2018, 2017 and 2016, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

On August 3, 2018, as a part of dissolution of SLNGIH there was a deed of termination executed between IEnova Marketing and SLNGIH, transferring indemnity obligations under the deed of indemnity from SLNGIH back to SLNGI by executing the Third Amended and Restated LNG Sale and Purchase Agreement (LNG SPA) between IEnova Marketing and SLNGI.

b. 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.

29. Revenue from contracts with customers

29.1. Contracts with customers

The Company has initially applied IFRS 15 from 1 January 2018. The following table shows the distribution by type of revenue shown in the Consolidated Statements of Profit for the years ended on December 31, 2018:

	Year ended 12/31/18
Revenue from operations:	
Contracts with customers	$ 866,426
Leases	161,584
Derivatives	69,617
Others - Sale of natural gas	171,206
Other revenue - Non IFRS 15	99,722
Total revenue	$ 1,368,555

29.2. Disaggregation of revenue from regular operations

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 years ended on December 31, 2018 :

	Year ended 12/31/18		
	Total subsidiaries	Consolidation adjustments	Total
By type of product or service:			
Service revenues:			
Power generation	$ 525,409	$ (218,370)	$ 307,039
Transportation of gas	392,875	(51,411)	341,464
Storage of natural gas	195,229	(82,306)	112,923
Administrative services	149,322	(122,979)	26,343
Natural gas distribution	81,941	(3,284)	78,657
Total revenue from contracts with clients	$ 1,344,776	$ (478,350)	$ 866,426
Others - Sale of natural gas	262,436	(91,230)	171,206
Total revenue	$ 1,607,212	$ (569,580)	$ 1,037,632
Obligations met:			
Over time	$ 1,344,776	$ (478,350)	$ 866,426
Total revenue from contracts with clients	$ 1,344,776	$ (478,350)	$ 866,426
By operating segment:			
Gas	1,388,062	(329,527)	1,058,535
Power	308,244	—	308,244
Corporate	36,750	(34,974)	1,776
Total revenue	$ 1,733,056	$ (364,501)	$ 1,368,555

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

The Company records revenue from services and from the generation of wind and electric energy at the time those services are rendered or delivered to and accepted by that client, in the terms of the programs established in each contract. That income is assigned on the basis of independent sales prices established in the contract and on the basis of amounts incurred. Assignment of the consideration, and therefore the schedule of income recognition, required no changes as a result of adopting IFRS 15.

Energy services and deliveries are conducted over time, as the client receives the benefits provided by the Company throughout the period in which the contract remains in effect.

Following is a detailed description of the principal features by type of product or service:

i. ***Revenue from power generation***

The Company generates revenue from renewable energy generated by Ventika, a wind energy generation facility acquired in December 2016.

Such revenue for the sale of power is recorded under long term U. S. Dollar PPAs as energy is delivered at the interconnection point. It is invoiced to clients based on the volume of electricity delivered at rates established in a formula set down in the contracts.

The client has a period of time established in the contract (commonly up to the later of (i) 10 days following issuance of the invoice and (ii) the 30th of the calendar month in question) to make full payment on the invoice in question. In certain contracts, if Ventika fails to provide the client with the minimum production agreed over one year of operations, it must pay the client a fine in the amount of the difference between (i) what the client must pay the CFE to acquire that energy in the market and (ii) the amount the Client would have paid Ventika to purchase the minimum amount of energy at the contract price. The Company has determined that the transaction price does not contain a significant financing component.

ii. ***Revenue from transportation of gas***

Transportation services are provided over long-term agreements based on rates established at inception of the contract and the Company is obligated to transport and deliver natural gas and other products to the costumer from the receipt point to the delivery point, subject to a minimum/ maximum.

The variable usage fee it's depends of the volume delivered. The stand-alone selling price is established at the inception of each contract and depends of the agreement it could be based on a regulated rate or a conventional rate.

iii. ***Revenue from storage of natural gas***

Natural gas always remains the property of the storage service clients, which pay a global rate based on two components:

1. A fixed rate, which confers the right to store natural gas at Company facilities.
2. A rate per unit for volumes injected into or withdrawn from the storage unit.

The fixed rate component of the global rate is recorded as revenue for the period in which the service is rendered. The charge per unit is recorded as revenue when volumes are injected into or withdrawn from the storage units.

iv. ***Revenue from administrative services***

Revenue from services rendered under the management agreements generally arises as services are rendered and are recorded over time as clients receive and consume the benefits of said services.

Clients are invoiced for services on the basis of an fixed annual rate and payment is generally due in one month. Certain agreements allow for the reimbursement of expenses when the Company acts as agent of affiliates, such as in cases where it manages invoicing and personnel subcontracting of other affiliates. In those cases, income is recorded net of the respective expenses incurred.

v. ***Revenue from natural gas distribution***

Revenue is generated through the monthly distribution service charges billed to its customers. The purchase price of natural gas for the Company is based on international price indices and is transferred directly to customers. The charges for the distribution service of the ECO system are regulated by the CRE, which reviews the rates every five years and monitors the prices charged to final consumers. The current tariff structure of natural gas minimizes the market risk to which the Company is exposed, since the rates are adjusted regularly based on inflation and fluctuations in exchange rates. The adjustments due to inflation take into account the cost components incurred both in Mexico and in the United States, so that costs incurred in the latter country can be included in the final rates.

29.3 Balances from revenue arising from contracts with customers

Revenue from rendering services to customers prior to expiration of the payment date is recorded as contractual assets until the remaining performance obligations are satisfied.

When payments are received prior to complying with the performance obligations associated with contracts with customers, that revenue is deferred as a contractual liability and is generally amortized in line with profits during the lifetime of the contract, provided performance obligations are met.

The following table shows the reconciliation of balances at the opening and closing of contracts with clients for Company, contractual assets and liabilities as of December 31, 2018.

	Contracts assets	Contract liabilities
Balance as of January 01, 2018	$ —	$ (834)
Adjustments for adoption of IFRS 15	—	—
Revenue from performance obligation satisfied during reporting period	—	—
Revenue from performance obligation satisfied in previous reporting periods	—	—
Other deferred revenue adjustments		(6,803)
Cash receipts	—	—
Advance payments	—	(4,346)
Reclassifications to accounts receivable	—	—
Balance as of December 31, 2018 *	$ —	$ (11,983)

* The contract liabilities are presented in Other non - current liabilities in the Consolidated Statements of Financial Position.

i. ***Accounts receivable from contracts with customers***

The following table shows the receivable balances associated with contracts with customers shown in the Consolidated Statements of Financial Position.

	Year ended 12/31/2018
Accounts receivable - commercial - net	$ 101,038
Accounts receivable - other - net	52,611
Total	$ 153,649

29.4. Performance obligations

Company revenue from contracts with customers are principally related to the generation, transfer and distribution of electricity and the transfer, distribution and storage of natural gas via our regulated public services. Likewise, other midstream services are provided as well as others pertaining to renewable energy.

The Company considers the transfer of electricity and natural gas, as well as natural gas storage services, to be continuous and integrated services. Electricity and natural gas services are generally received and consumed by the client simultaneously. Therefore, the performance obligation related to the services is met over time and represents a series of differentiated services which are substantially the same and show the same transfer-to-client pattern. Energy services and deliveries are conducted over time, as the client receives the benefits provided by the Company throughout the period in which the contract remains in effect

Payment conditions in contracts with clients vary. There is generally an unconditional right to client payment, which expires once the performance obligation to the client has been complied with.

Therefore, there are no material contractual assets or contractual liabilities in the Consolidated Statements of Financial Position. The lapse from the date of invoicing to the expiration date is not significant, i.e., usually from 10 to 90 days.

Therefore, revenue is usually recognized when the agreed basic service has been rendered to the clients and an amount has been invoiced to the clients reflecting the consideration to which it is entitled in exchange for those services.

29.5. Transaction price assigned to pending performance obligations

The Company elected to implement the practical expedient so as not to disclose information concerning its pending performance obligations, because it records revenue from regular operations based on compliance with the performance obligation.

Remaining performance obligations	
2019	$ 508
2020	508
2021	509
2022	512
2023	506
Thereafter	2,732
Total Revenues to be recognized	$ 5,275

No information is disclosed concerning remaining performance obligations for (a) contracts with an expected duration of one year or less, (b) revenue recorded in the amount the entity is entitled to invoice for services rendered, and (c) a variable consideration assigned to performance obligations that have remained entirely unsatisfied.

29.6. Significant judgments

The Company uses the product method to record revenue from regular operations under contracts with clients related to performance obligations satisfied over time so as to determine the schedule for satisfaction of said performance obligations, as the value of the delivery of electricity or natural gas to the client can be measured directly on the basis of units delivered. In most cases, the right to the consideration of the client corresponds directly to the value transferred to the client and is recorded in income in the amount the entity is entitled to invoice.

The Company records revenue from services and from the generation of wind and electric energy at the time those services are rendered or delivered to and accepted by that client, in the terms of the programs 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.

29.7. Assets recorded for costs incurred in order to secure or comply with a contract with a client.

The Company has not recorded assets pertaining to costs incurred in order to secure or comply with a contracts with clients at December 31, 2018.

30. Interest income

	Year ended		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Interest income:			
Unconsolidated affiliates	$ 24,405	$ 21,651	$ 5,198
Bank investments	3,044	1,157	1,071
	$ 27,449	$ 22,808	$ 6,269

The following is an analysis of interest income by category of asset:

	As of		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Loans and receivables (including cash and bank balances)	$ 24,405	$ 21,651	$ 5,198
Held-to-maturity investments	3,044	1,157	1,071
	$ 27,449	$ 22,808	$ 6,269

31. Operating, administrative and other expenses

	Year ended		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Purchased services	$ 101,490	$ 81,954	$ 42,082
Employee benefit expenses	88,231	78,033	55,625
Purchased materials	20,750	22,305	11,775
Outside services and others	4,048	20,690	12,788
	$ 214,519	$ 202,982	$ 122,270

Outside services and others include charges related to leases of land and buildings with lease terms between five and ten years. Operating lease contracts greater than five years includes review periods of five years to rent. The Company does not have an option to purchase the leased land at the end of the leasing periods.

32. Other gains (losses), net

	Year ended		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Net gains (losses) arising on derivative financial instruments (b)	$ 3,415	$ (6,135)	$ (3,477)
Other gains (losses)	2,697	2,262	(402)
Net foreign exchange (losses) gains (a)	(6,104)	(37,027)	4,652
	$ 8	$ (40,900)	$ 773

a. A foreign exchange loss by $2.9 million and $34.9 million for the years ended December 31, 2018 and 2017, on a peso-denominated inter-affiliate loan granted to IMG for the development of the South Texas - Tuxpan marine pipeline project for our proportionate share of the project´s financing is included. (Please refer to Note 10.3.).

b. The amount represents a change in fair value arising from the cross currency swaps, interest rates swaps and foreign exchange forwards and the related settlements. (Please refer to Note 24.).

33. Finance costs

	Year ended		
	12/31/18 (Note 12)	12/31/17 (Note 12)	12/31/16 (Note 12)
Capitalized interest (a)	$ 10,746	$ 10,181	$ 14,876
Decommissioning liabilities accretion expense	(2,552)	(2,249)	(1,686)
Other finance costs	(8,615)	(5,037)	(3,865)
Interest on loans from unconsolidated affiliates	(17,747)	(8,338)	(17,268)
Long - term interest	(104,711)	(68,058)	(13,149)
	$ (122,879)	$ (73,501)	$ (21,092)

a. Please refer to Note 14., for the capitalized interest on qualified assets.

34. Depreciation and amortization

	Year ended		
	12/31/18 (Note 14)	12/31/17 (Note 14)	12/31/16 (Note 14)
Depreciation of property, plant and equipment	$ 126,839	$ 110,461	$ 66,003
Amortization of other assets	10,318	8,559	603
Total depreciation and amortization expense	$ 137,157	$ 119,020	$ 66,606

35. Basic and diluted earnings per share

	Year ended		
	12/31/18	12/31/17	12/31/16
Basic and diluted earnings per share	$ 0.28	$ 0.23	$ 0.61

35.1. Earnings used in the calculation of basic and diluted earnings per share

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

	Year ended		
	12/31/18	12/31/17	12/31/16
Earnings from continuing operations used in the calculation of basic and diluted earnings per share	$ 430,586	$ 354,174	$ 754,990
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,533,857,145	1,534,023,812	1,235,758,229

The Company does not have potentially diluted shares.

36. Commitments

36.1. Sales commitments

a. ***GRO.*** Eentered into firm transportation service agreements ("FTSAs") with eight customers. Under the FTSAs, the Company is committed to provide firm natural gas transportation service up to certain daily quantities of natural gas, defined as Maximum Daily Quantities ("MDQ") measured in dekatherms per day ("Dth/d"). The FTSAs establish a transportation service rate which can be a conventional rate or a regulated rate. Such rates are applied to customers' reserved daily transportation capacity. Conventional rates typically remain fixed during the term of the contract. The regulated rates are adjusted annually for inflation and other factors per regulations and the CRE authorization. The range of effective periods and the agreed-upon MDQ for each agreement described above are from 5 to 25 years and from 800 to 1,307,000 Dth/d, respectively.

b. ***TGN.*** Entered into FTSAs with two clients. Through FTSAs the Company commits to surrender transportation services up to a certain daily amount of natural gas. The FTSAs establish conventional or regulated transportation rates.

c. ***ECA.*** The Company has a contract to sell 50 percent of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned a portion of its contracted capacity to another independent third party.

The Company built a nitrogen facility to provide nitrogen injection services to agreed storage capacity parties. Agreement terms were embedded into the LNG Terminal's FTSAs with same period term of 20 year.

d. ***GAP.*** Entered into a 25 year capacity contract with CFE corresponding to segment Sasabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.
The Company, entered into a 25 year capacity contract with CFE related to next segments:

	Sasabe Puerto Libertad	Puerto Libertad Guaymas	San Isidro Samalayuca	Guaymas El Oro	Ojianga El Encino
Capacity	793.1 Dth/d		1,169.02 Dth/d	525.3 Dth/d	1,396.7 Dth/d
Started Operation	10/01/2015	08/01/2015	03/31/2017	05/19/2017	06/30/2017
Zone	Sonora		Chihuahua	Sonora and Sinaloa	Chihuahua

The Company, entered into a 21 year capacity contract with CFE corresponding to segment El Ramal Empalme which started operations in June 2017 and has a capacity of 232.8 Dth/d. This agreement was executed on May 5, 2016.

The Company, has entered into Interruptible Transportation and Compression of natural gas Service Agreements ("ITSAs") with Shell Trading Mexico, S. de R. L. de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 1,000 Dth/d defined as MDQ. The ITSAs establish a transportation service rate which has to be approved by CRE. This agreement was executed on May 15, 2017, and will continue in full force until May 15, 2022.

The Company, has entered into ITSAs with Union Energetica del Noroeste, S. A de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 3,600 Dth/d defined as MDQ. The customer will pay the regulated fee applicable in accordance with the latest publication by the Official Gazzete of the Federation and according to the modifications approved by the CRE. This agreement will be valid as of the date on which the customer notifies to GAP that is ready to start the natural gas tests and will be in force until such tests are concluded. This agreement was executed on January 4, 2017.

e. ***IEnova Pipelines.*** The Company has entered into ITSAs with two customers. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation and compression service up to certain daily quantities of natural gas, defined as MDQ measured in Gigacalories per day ("Gcal/d"). The ITSAs establish a transportation and compression service rate published in the Official Gazette of the Federation in accordance with the applicable regulations. The range of effective periods and the agreed-upon MDQ for each agreement described above are from one to three years and from 3,822 to 10,000 Gcal/d respectively. The agreements were executed on March 22, 2017 and April 19, 2017, and will continue in full force until March 22, 2018 and April 30, 2020, respectively.

On February 15, 2001, entered into a contract with to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for additional five years. The maximum daily capacity covered by this contract is 60 MMCFPD.

On October 22, 2014, entered into a natural gas transportation services contract, under the TF-1 firm transport service scheme with CFE for a firm base reserved capacity of 100 MMCFPD with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

On October 22, 2014, entered into an agreement to provide natural gas transportation service under the TI-1 interruptible transport service scheme to CFE for an interruptible capacity of 72 MMCFPD with a regulated rate. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

On October 31, 2014, entered into a natural gas transportation services contract, under the TI-2 interruptible transport service scheme with CFE for an interruptible capacity of 50 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

On September 28, 2016, entered into a fifth natural gas transportation services amending agreement, under the TF-1 firm transport service scheme with PGPB signed on December 11, 2009, for a firm base reserved capacity of 40 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

On September 28, 2016, entered into a fifth natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with PGPB signed on December 11, 2009 for an interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

On September 28, 2016, entered the into a fifth natural gas transportation services amending agreement, under the TI-2 interruptible transport service scheme with PGPB signed on December 11, 2009 for a interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year periods. The agreement is currently in effect with Pemex TRI.

On December 16, 2014, entered into a second natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with Energia Chihuahua signed on December 21, 2012, for an interruptible capacity of 80 MMCFPD. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

On February 17, 2012, signed a service contract to LPG storage with Pemex TRI. This contract provides base storage capacity reserved of 4,470 MMCFPD to 30,000 Bbld. The contract term is 15 years with a conventional rate, which represents the rate regulated by the CRE minus 1.2 percent. This contract was given in all rights and obligations, together with all attachments to TdN, by signing an amendment agreement dated on June 18, 2012, between IEnova Pipelines, TdN and Pemex TRI.

f. ***GAP.*** In October 2012, was awarded by the CFE with two contracts to build and operate an approximately 835 km (500 miles) natural gas pipeline network connecting the northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline. The Northwest gas pipeline will comprised of two segments; the first one is for an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one, is for an approximate length of 330 km, 30-inch pipeline with 510 MMCFPD of transportation capacity. The estimated price per MMCFPD is approximately $250.0. The Company estimates the total cost of the Northwest gas pipeline will be $1.0 billion. The capacity of the Northwest gas pipeline is fully contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Northwest gas pipeline, GAP issued 2 irrevocable standby credit letters, for $90.0 million and $65.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until November 30, 2039 and until October 31, 2041, respectively.

g. ***La Rumorosa solar project.*** Entered into an Electricity Sales and Purchase Agreement ("SPA") with CFE for 15 years and has a contracted energy of 114,115.9 MWh by year and shall take effect from Commercial Operation Date ("COD") which is on June 15, 2019; the contract was executed on January 20, 2017.

The Company, signed a Clean Energy Certificates ("CEC") SPA with CFE for 20 years. During this period ESJH acquired the obligation to sell to CFE 117,064 CEC per year. This commitment will take effect from COD which is expected to occur on June 15, 2019, the contract was executed on January 20, 2017.

h. ***Tepezala solar project.*** Entered into an Electricity SPA with CFE for 15 years and has contracted energy of 278,357.76 MWh per year and shall take effect from COD which is expected to occur on June 15, 2019; the contract was executed on January 20, 2017.

The Company, entered into an Power SPA with CFE for 15 years and has a contracted power of 10 MW per year and shall take effect from COD which is expected to occur on June 15, 2019, the contract was executed on as of January 20, 2017.
The Company, signed a CEC with CFE for 20 years, during this period ESJRI acquired the obligation to sell to CFE 285,606 CEC per year, this commitment will take effect from COD which is expected to occur on June 15, 2019, the contract was executed on January 20, 2017.

i. ***Pima solar project.*** Entered into an electricity, power and CEC with Deacero, this contract was executed on March 24, 2017 and will have a duration of 20 years counted from the COD which is expected to occur in the first quarter of 2019.

Must deliver for each contract year at least the amount of CEC corresponding to the guaranteed Energy that will be one CEC per MWh and is obligated to transfer the net power of the power plant which is 110 MW.

j. ***Marine terminal Veracruz proyect.*** The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD is expected to take place in December 2018 and include 775,000 barrels of shell storage capacity. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

k. ***Puebla in-land terminal project.*** The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 480,000 barrels of shell capacity. The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

l. ***Mexico City in-land project.*** The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 780,000 barrels of shell capacity. The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

m. ***IEnova Marketing.*** On July 1, 2008, entered into a contract with CFE, for supply natural gas at the delivery points from an LNG Storage Plant, the contract ends on December 31, 2022, equivalent to 14.5 years.

The Company, has entered into a base contract for sale and purchase of natural gas (the "Base Contract"), through this contract IEnova Marketing celebrated a Supply Agreement with several clients to supply natural gas. The terms and conditions of the Supply Agreement are variable for each customer. As of December 31, 2017, IEnova Marketing support seven ongoing supply agreements with an average maturity less of 5 years.

On July 1, 2015, entered into a contract with SLNGIH, to transfer 65 percent of profits and losses under the deed of indemnity until August 30, 2029.
On February 1, 2013, entered into a Scheduling Agreement with SG&PM; the agreement ends on December 31, 2022. The objective of the agreement is to engage in the service of SGEN to supply natural gas at the delivery points of SG&PM.

On January 1, 2013 and September 1, 2014, entered into two natural gas purchase agreement with SLNGI. The agreements end on August 20, 2029 and December 31, 2022, respectively (equivalent to 16.6 years and 8.3 years respectively). The acquired capacities are 188,000 MMBtu/Year and 400 MMBtus/Day, respectively.

n. ***GdT.*** Executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001, and stipulates a capacity of 1,000, million cubic feet of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations). On January 1, 2016, this agreement was transferred to CENACE.

o. ***GdN.*** On July 19, 2013, entered into an agreement to provide natural gas transportation services to Pemex TRI. The agreement has a term of 25 years from COD the system with a regulated rate. This contract is under scheme firm transport capacity reserved of 2,100 Mcfd. This contract was transferred to CENACE on January 1, 2016.

p. ***DEN.*** On December 15, 2014, entered an agreement with TAG to provide O&M services. This agreement expires in 25 years from the pipeline commercial operations.

On January 1, 2016, entered an agreement with TAG to provide commercial services for a period equal Natural Gas Transport Permit G/335/TRA/2014 in favor of TAG, starting from the firm contract date.

q. ***Ventika.*** During 2014, entered into a 10 to 20-year contract with their customer's shareholders to sell 100 percent of the renewable energy produced from the wind energy project. Such agreement commenced in April 2016 once Ventika started commercial operations.

r. ***TDF.*** On December 15, 2005, entered into a LPG transport service contract with Pemex TRI, under firm base capacity reserved of 4,470 MMCFPD equivalent to 30,000 Bbld. This agreement expires 20 years after COD.

s. ***GdS.*** On December 13, 2012, entered into an ethane gas transportation services contract with Pemex TRI. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme for a firm base reserved capacity of: Segment I Cangrejera– Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI–Cangrejera 29,500 BPD, Segment II Nuevo Pemex km 3 66,000 BPD, Segment II Cactus–km 3 38,000 BPD, Segment II km 3–Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex–Nuevo Pemex 105,600 BPD.

t. ***Wind power generation facility.*** On November 16, 2017, the Company through Energia Sierra Juarez 2 U. S., LLC, its wholly owned subsidiary, executed a 20-year power purchase agreement with SDG&E, a IEnova's unconsolidated affiliate. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California, Mexico. The project will have a capacity of 108 MW.

u. ***Long-term electric supply contract.*** On February 28, 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of 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 with a capacity of 125 MW. The beginning of commercial operations is expected to occur in the second half of 2019.

v. ***Marine terminal, Baja California, Mexico.*** On April, 2018, the Company signed a long-term contract with Chevron, for approximately 50 percent of the terminal's storage capacity.

On March 14, 2018, the Company executed a second long-term contract for the storage and delivery of hydrocarbons with BP, for the remaining 50 percent of the terminal's storage capacity.

w. ***Marine terminal in Topolobampo, Sinaloa, Mexico.*** In September and October 2018, the Company announced the execution of two long-term, U. S. dollar-denominated, contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal, for the receipt, storage and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50 percent of the terminal's initial one million barrels of storage capacity.

x. ***Marine terminal in Manzanillo, Colima, Mexico***. On September 26, 2018, the Company executed a long - term contract with Trafigura, for 740 thousand barrels, equivalent to 50 percent of the terminal's storage capacity.

y. ***Liquefied natural gas project.*** On November 7, 2018, the Company announced together with Sempra LNG & Midstream, the signature of three agreements with affiliated companies of Total S. A., Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. for the full capacity of phase 1 of the ECA liquefied natural gas project located in Baja California, Mexico.

The project's phase 1 is a single-train liquefaction facility to be located adjacent to the existing receipt terminal and is expected to produce approximately 2.4 million tonnes of LNG per annum with potential first LNG deliveries in 2023.

z. ***Power purchase agreement.*** On December 17, 2018, the Company, executed a 15-year electric supply contract with Autlan to provide energy from the Company's portfolio of solar generation project's.

The beginning of commercial operations is expected to occur in the fourth quarter of 2019.

36.2. Purchase commitments

a. ***Rumorosa solar project.*** In 2017, entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2018 and 2017 payments under the agreements were $0.1 million, and $0.1 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 111
2020	111
2021	111
Thereafter	1,662
	$ 1,995

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $5.8 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 7,072

During 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
2019	$ 185
2020	150
2021	160
Thereafter	3,087
	$ 3,582

b. ***PIMA solar project.*** In 2017, ESJH and ESJRII entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2018 and 2017, payments under the agreements were $0.2 million and $0.2 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 201
2020	201
2021	201
Thereafter	3,013
	$ 3,616

In the fourth quarter of 2017, ESJH, ESJR I and ESJR II entered into various engineering, procurement and construction agreements with third parties for the PIMA Solar Project.

During 2018 and 2017, payments under the agreement were $116.5 million and $3.1 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 8,097

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $9.0 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 1,000

c. The Company leases the building space of its administrative offices in the cities of Hermosillo, Monterrey, Guadalajara, Mexicali, Chihuahua, Durango, and Mexico City. During 2018, 2017 and 2016, the rent expense amounted to $4.1 million, $3.7 million and $4.2 million, respectively.

The leases expire in 2016 through 2021 and establish the following future contractual payments:

Year	Amounts
2019	$ 3,968
2020	2,078
2021	1,404
Thereafter	2,507
	$ 9,957

d. ***TDM.*** During 2003, entered into a Long Term Services Agreement ("LTSA") with a third party, which covers certain periodic maintenance, including replacement parts for power generation turbines. The term of the agreement is based on turbine usage, that can not exceed 24 years.

Payments under the agreement consist of a fixed fee of $24.0 per month, plus a variable escalation percentage and a variable fee based upon unit run-hours and starts.

The fixed monthly fee payments are expensed as incurred. The variable payments are classified as prepayments on the statements of financial position and are capitalized as property, plant and equipment if they relate to the replacement of major components, or expensed when such payments occur. While some services are provided ratably throughout the year, the primary cost driver is planned outages at the facility. Variable payments are subject to fluctuations based on the timing and scope of the services being provided.

During 2018, 2017 and 2016, payments, under the LTSA, were $0.2 million, $0.4 million, and $0.5 million, respectively; variable payments under such LTSA were $2.4 million,$4.3 million and $6.1 million, respectively. This agreement was terminated in June 1, 2018.

SGEN and TDM. On January 1, 2013 (with effective date on January 1, 2012), entered into an schedule coordination, energy management and related services agreement, with term of 5 years (with possibility to extend the term one more year), for which TDM will continue to deliver all of its power output directly to the CAISO and SGEN provides marketing, scheduling, and dispatch services for TDM, among others. On December 1, 2016 this contract was assigned to Sempra Gas & Power Management LLC.

During 2018, 2017 and 2016, payments under the agreement were $6.8 million, $5.1 million and $5.5 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	3,500

e. ***ECA.*** Entered into a service agreement with Turbinas Solar, S. A. de C. V. ("Turbinas Solar") which provides extended service and maintenance for five gas turbines. As of April 2014, Turbinas Solar assigned this agreement to Servicios de Turbinas Solar, S. A. de C. V. The agreement establishes two main types of services: a monthly fee covers operational support and extended product warranty for $124.4 million and a variable cost based on turbine usage, expensed as incurred, for major turbine maintenance, that will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60-months starting from the date of first beneficial use. During 2013, the Company renegotiated the agreement-terms until 2018.

During 2018, 2017 and 2016, payments under the agreement were $1.4 million, $3.6 million and $3.6 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 208

Entered into various technical service and maintenance agreements with third parties. During 2018, 2017 and 2016, payments under such agreements were $4.9 million, $8.2 million and $11.6 million, respectively. Future contractual cash payments of such commitments are as follows:

Year	Amounts
2019	$ 3,111
2020	1,250
2021	1,200
Thereafter	16,800
	$ 22,361

f. On January 1, 2013, the Company entered into an Information Technology Services Agreement with Sempra Infrastructure, LLC ("Sempra Infrastructure") (formerly U.S. Gas & Power) (a related party in U.S.). Pursuant to this agreement, Sempra Infrastructure will provide certain software and information technology services, including software, support and security services. The Company pays an approximate annual rate of $6.8 million. This agreement has an initial term of five years, and for subsequent five year Renewal Terms thereafter.

g. On February 28, 2013, the Company entered into a Management, Technical and Advisory Services Agreement with Sempra International (a related party in U.S.); pursuant to which Sempra International (directly or through affiliates) will provide with certain support services. The Company paid $6.5 million, $8.3 million and $5.8 million during 2018, 2017 and 2016, respectively.

h. ***ECO.*** Entered into purchase agreement of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MmBtu daily. In 2016, the contract changed from British Petroleum to IEnova Marketing (consolidated affiliate).

i. ***GdT.*** On December 5, 2012, entered into an agreement with Pemex TRI through which it receives compression services based on interruptible by PGPB to GdT, on investment of $4.6 million will be used for the rehabilitation of compression station 19 and PGPB reinstate costs in 75 percent and only paid 25 percent to Pemex TRI. On January 1, 2016 this agreement was transferred to CENAGAS.

j. ***TDF.*** On December 15, 2005, entered into an agreement with Pemex TRI, through which it receives O&M services for liquid gas transport system. This agreement expires 20 years after COD. The agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $5.2 million and $5.2 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 5,155
2020	5,155
2021	5,155
Thereafter	20,620
	$ 36,085

k. ***TdN.*** On February 21, 2012, entered into an agreement with PGPB, through which it provides operation and maintenance services for the LPG transportation services. This agreement expires 20 years after COD. This agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $3.0 million and $3.1 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 3,047
2020	3,047
2021	3,047
Thereafter	30,974
	$ 40,115

l. ***GdS.*** On April 16, 2014, entered into an agreement with Pemex TRI, through which it provides operation and maintenance services for the ethane gas transportation services. This agreement expires in 20.5 years after the first segment commercial operational date. This agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $6.2 million and $6.2 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 6,201
2020	6,201
2021	6,201
Thereafter	79,057
	$ 97,660

m. ***Gasoductos Servicios Corporativos y de Administracion, S. de R. L. de C. V. ("GSCA").*** On March 30, 2017, entered into an agreement with GE Oil & Gas Products and Services, S. de R. L. de C. V. ("GE") for the maintenance of GdT's turbines. This agreement will expire upon the first occur considering the following:

a) The date upon which all covered units have reached their performance end date, or
b) Eight years from the contract effective date.

The estimated cost of this contract amounts to $18.2 million.

During 2018 and 2017, payments during the agreement were $2.5 million and $0.6 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 3,061
2020	5,038
2021	3,080
Thereafter	2,312
	$ 13,491

GSCA and GdT. Entered into various O&M agreements during 2017. During 2018 and 2017, payments during the agreement were $1.3 million and $1.4 million, respectively.

Future contractual cash payments are as follows:

Year	Amounts
2019	$ 1,041

n. ***Veracruz marine terminal project.*** Entered into an agreement with the Veracruz API as concessionary, for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, Mexico, with an obligation for the Company to pay a fixed fee from 2019 until maturity date in 2037, during 2018 payments were $26.0 million.

Under the concession contract signed in 2017, the Company is subject to a monthly fee. Net future payments of this contractual commitment are as follows:

Year	Amounts
2019	$ 2,457
2020	3,893
2021	4,069
Thereafter	100,524
	$ 110,943

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $36.4 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 45,944

During 2018, the Company started several contracts for land improvement. During the year ended December 31, 2018, payments under these contracts were $3.3 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 2,966

o. ***Ventika.*** Has acquired the rights to a 20-year land lease agreement to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 20-year term.

During 2018 and 2017, payments during the agreement were $0.5 million and $0.5 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 544
2020	581
2021	620
Thereafter	10,298
	$ 12,043

On June 3, 2013, entered into 5-year O&M agreement with Acciona Energia Servicios Mexico, S. de R. L. de C. V. ("Acciona") which commenced after the commissioning of the last wind turbine units, and covers operation, service and maintenance activities. The agreement can be extended by another 20-year term.

During 2018 and 2017, payments during the agreement were $6.5 million and $7.6 million, respectively. Future contractual cash payments are as follows:

Year	Amounts
2019	$ 7,433
2020	6,773
2021	2,839
	$ 17,045

On April 8, 2014, entered into a 5-year asset management services agreements with Cemex, S. A. B. de C. V. Payments under the agreement consist of an annual fixed fee plus a variable administration commission.

During 2018 and 2017, payments during the agreement were $5.0 million and $5.0 million, respectively. Future expected payments for Ventika are as follows:

Year	Amounts
2019	$ 5,308
2020	5,379
2021	3,484
	$ 14,171

p. ***IEnova Marketing.*** On May 1, 2008, entered into a contract with MGI Supply, LTD ("MGI"), to purchase the gas natural transportation capacity in the North Baja System. The acquired capacity is 210 Dth/d. The contract term is for 14 years (ends on August 31, 2022).

On November 24, 2016, entered into a purchase natural gas capacity agreement with SG&PM, to guarantee the ongoing Supply Agreements signed with several customers. The acquired capacity is variable and the average maturity is less of 5 years.

q. ***Puebla in-land terminal project***. During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $6.1 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 10,988

During 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
2019	$ 5,833

r. ***Mexico City in-land project.*** During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $6.2 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 22,212

During 2018 the Company started several parcel land purchase negotiations for the site on which the project will be constructed. During the year ended December 31, 2018 payments under these contracts were $0.7 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 3,826

s. ***Tepezala II solar project.*** During 2018, the Company entered into several contracts for the project. During the year ended December 31, 2018, payments under these contracts were $13.7 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 76,970

During 2018, the Company entered into assignment agreements of the permits and rights of way. During the year ended December 31, 2018, payments under these contracts were $3.3 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 2,388

During 2018, the Company started several parcel land purchase negotiations for the site on which the project will be constructed. During the year ended December 31, 2018, payments under these contracts were $0.2 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 305
2020	285
2021	285
Thereafter	4,272
	$ 5,147

t. ***Compression stations.*** During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $3.9 million. Net future payments under these contractual commitments are as follows:

Year	Amounts
2019	$ 26,562

u. ***Topolobampo, Sinaloa terminal project.*** During 2018, the Company entered into a contract for the concession agreement with the Administration of Topolobampo Port. During the year ended December 31, 2018, the payments under this contract were $18.4 million. Net future payments under this contractual commitment is as follows:

Year	Amounts
2019	$ 17,894

Under the aforementioned concession agreement the Company is subject to a monthly fee. Net future payments under this contractual commitment is as follows:

Year	Amounts
2019	$ 2,167
2020	2,273
2021	2,384
Thereafter	63,874
	$ 70,698

v. ***Software licenses.*** During 2018, the Company entered into a contract for the purchase of software licenses. Net future payments under this contractual commitment are as follows:

Year	Amounts
2019	$ 4,880
2020	880
2021	880
Thereafter	1,760
	$ 8,400

37. Contingencies

37.1. Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de Administracion Tributaria, "SAT" by its initials in Spanish), during a review, believes that prices and amounts used by the Company are not similar to those used with or between independent parties in comparable transactions.

37.2. Judicial, administrative or arbitral proceedings

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

Matters on ECA

a. *Motions for review (recurso de revision) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, *Hiram Castro Cruz* and *Roberto Valdez Castañeda ("Castro* and *Valdez"),* jointly, and Monica Fabiola Palafox ("Palafox"), acting individually filed *motions for review* before the Ministry of the Environment and Natural Resources *(Secretaria de Medio Ambiente y Recursos Naturales, SEMARNAT)* to challenge the issuance of the MIA to the ECA Terminal granted in April 2003, based on allegations similar to IVG's allegations. SEMARNAT dismissed the motions and the plaintiffs filed before the Federal Court of Tax and Administrative Justice *(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA),* in Mexico city, motions for annulment against the respective rulings. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdez, SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdez filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a motion against the ruling whereby the TFJFA ordered the admittance of the motion filed by *Valdez.* In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdez and Palafox are unfounded.

   Finally, against the resolution of dismissal Roberto Valdes filed an annulment proceeding that was resolved denying the annulment to the complainant by means of a judgment published in January 2017.

b. *Saloman Arya Furst* and *Abraham Hanono Raffoul* filed before the Unitary Agrarian District Court of *Ensenada* a claim against the Ministry of Agrarian Reform *(Secretaria de la Reforma Agraria),* ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA's Terminal is located, as well as the return of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the ECA's former owners were issued improperly and without considering the existing property rights of such immovable property. In September 2011, was held a definitive hearing on the subject, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before issuing the judgment, the plaintiffs filed a constitutional claim against the refusal of the judge to the admittance of the evidence. The action of the judge is suspended by the constitutional claim, and, the constitutional trial cannot continue until the Court serves notice of the civil claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

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

On November 3, 2017, a diligence for inspection and study in the field was carried out by various experts offered by the litigants. To date all experts have surrendered their respective opinions. The Agrarian Court has ordered the issuance of an expert opinion of a third party in dispute and is requesting the Superior Agrarian Court, the appointment of an expert for this purpose.

c. Criminal Investigation. In May 2009, Sanchez Ritchie filed before the Attorney General Office of Ensenada a criminal complaint arguing that "Sempra's affiliates", several employees of ECA's Terminal and several former employees of such Office committed the crime of procedural fraud as to a criminal complaint filed by ECA, which owns ECA's Terminal against Sanchez Ritchie in 2006 as part of the conflict related to the possession of an immovable property adjacent to ECA's Terminal, which is property of the Company. In September 2006, ECA accused Sanchez Ritchie of the crime of dispossession for having trespassed ECA's immovable property. As part of such proceedings, the public prosecutor issued a provisional order to remove Sanchez Ritchie from the immovable property. In the criminal complaints filed in 2009, Sanchez Ritchie argued that ECA and the other defendants provided false information to obtain such order. The public prosecutor responsible of the case determined that there was not enough evidence to prosecute the defendants and closed the investigation; and, in March 2011, the criminal court of Tijuana ratified the withdrawal of the action. In September 2011, Sanchez Ritchie filed a constitutional claim against the respective ruling before the Collegiate District Court of Ensenada. The hearing to analyze the substantive aspects of the constitutional claim was held in March 2012 and in July 2012 the judge granted the protection regarding the omission in the study, by the criminal judge, of certain evidence and arguments submitted by Sanchez Ritchie. The district judge ordered the criminal judge to issue a new resolution considering such issues. ECA's Terminal appealed the resolution in the Federal Circuit Court, which as of December 31, 2015, had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.

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

e. Lawsuit challenging issued driving licenses of Agency for Safety, Energy and Environment (Agencia de Seguridad, Energia y Ambiente ASEA) and Mexican Ministry of Energy (Secretaria de Energia de Mexico SENER) related to Environmental Impact Evaluation and Social Impact Evaluation, respectively, from one of our ECA's liquefaction projects. On August 2018, the Bajamar's Leading Resort through Banco Santander Mexico, S. A. Institucion de Banca Multiple Grupo Financiero Santander Mexico, Institucion Fiduciaria in the Trust 53153-0, filed a lawsuit before a District Judge with residency in Ensenada, Baja California, against the Environmental Impact Evaluation and Social Impact Evaluation from one of our ECA's liquefaction projects, which was issued in late 2017, by ASEA and SENER, respectively. The lawsuit was admitted by District Judge, who granted the temporary suspension in order to keep things in the state they are, and not to suspend the procedure, and no final resolution was issued over the works and construction or operation of the project from which results the claimed acts, until it happened.

Incidental audience that was scheduled on October 23, 2018, was postponed to January 28, 2019. ECA presented a complaint resort against the order was granted temporary suspension.

38. Application of new and revised International Financial Reporting Standards

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, 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, contract 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. Difference that might arise as a result of adopting IFRS 9 between previous carrying amounts and the carrying amount at the beginning of the annual reporting period should be allocated to opening retained earnings. However, no differences were identified.

As a result of the implementation strategy towards IFRS 9 adoption and based upon the classification and measurement requirements fulfillment, the Company conclude that all of its financial assets would continue to be recognized under the current categories 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

Although receivables under a finance leases scheme meet the definition of financial asset, are exclude from the scope of IFRS 9. 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 that are 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. The Company is confident that the simplified approach is better suited to its operations 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 resulted from adoption, although a relevant change is the significant increase in the disclosures required in the Financial Statements.

Please refer to Note 29 for additional disclosures concerning the nature, quantity, timing and uncertainty of revenue arising from contracts with customers.

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.The adoption of this amendment would not have a significant effect when become effective.

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 January 1, 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. The Company will recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments. However, The Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Company does not intend to adopt the standard before its effective date.

Expected impact from adoption of the lease standard

		As of 01/01/19
Other assets (reclassification from prepayments and other liabilities) (Refer to Notes 9 and 19)	$	(68,295)
Right of use assets:		164,540
	$	96,245
Lease liabilities:		
Lease current liabilities	$	(25,768)
Lease non current liabilities		(70,477)
Total leases liabilities	$	(96,245)

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 January 1, 2019.

Amendments to IFRS 3 *Business Combinations* clarify that when an entity obtains control of a business that is a joint operation, 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 is 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 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 remeasured 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 choose 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 interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. The Company not expect any significant effect on its consolidated financial statements.

39. Events after reporting date

a. *Topolobampo marine terminal*

On January 4, 2019, IEnova Petroliferos IV, S. de R. L. de C. V. paid the remaining 50 percent of a counter-payment fee equivalent to the amount in Mexican Pesos for the right to build, use, leverage and benefit from the operation of the marine terminal in Topolobampo, the counter-payment amounts to $350.5 million Mexican Pesos. (Please refer to Note 1.2.13.h.).

b. *Withdrawals of credit line*

On January 9, 2019, regarding the credit line mentioned in Note 23.a. the Company withdrew $50.0 million, to be used for working capital and general corporate purposes.

c. *ICM asset acquisition*

On January 28, 2019, ICM issued 770,000 new shares to the Company, following the transaction, ownership of ICM is held as follows, (Please refer to Note 11.6.):

Shareholder	Shares Held	Ownership Percentage
IEnova	15,577,708	52.35%
Trafigura	14,178,013	47.65%

d. *Don Diego asset acquisition*

On February 5, 2019, the Company paid the remaining of the consideration for Don Diego acquisition, after issued the final notice for the assigned Engineering Procurement and Construction contract. (Please refer to Note 11.4.).

e. *Increase and term extension to revolving credit agreement*

On February 11, 2019, the Company entered into an amendment agreement to i) increase the amount of the credit line to $1.5 billion, ii) extend the term thereof from August 2020 to February 2024 and iii) include JP Morgan Chase Bank, N. A. and Credit Agricole Corporate and Investment Bank to the lenders' syndicate. The interest rate will be libor + 90 bps and the payment commitment will be 24 bps.

f. *Repurchase of shares*

During the month of February 2019, repurchases of shares were carried out for a total of $ 5.8 million, equivalent to 1,600,000 shares.

40. Approval of Financial Statements

The accompanying Consolidated Financial Statements were authorized for issuance on February 19, 2019, by Manuela Molina Peralta, Chief Financial Officer, and subject to the approval of the Management Board and the ordinary shareholders of the Company, who may be modified in accordance with the provisions of the General Law of Commercial.

41. 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. 11550
  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.

* * * * * *

The English version is a translation of the original in Spanish and is for informational purposes only. In case of a discrepancy, the Spanish original will prevail.

With reference to the article 37 of the general dispositions applicable to issuers and other stock market participants supervised by the National Banking and Securities Commission (the "commission") that contract financial statements external audit services (the "dispositions"), in our character of external auditors of the consolidated financial statements for the year ended December 31, 2018 of Infraestructura Energética Nova, S.A.B. de C.V., or the "issuer":

I. I declare I comply with the requirements stablished in articles 4 and 5 of the dispositions, as manifested in the attached document, that I am a public accountant with degree issued by the Public Education Ministry, with certificate issued by the Public Accountant Mexican Institute number 7407, issued on April 8, 1999. Likewise, I am registered in the "Admnistracion General de Auditoria Fiscal Federal del Servicios de Administracion Tributaria" ("AGAFF") 18302 issued on February 7, 2014. Additionally, Galaz, Yamazaki, Ruiz Urquiza, S.C. (the "firm") is registered under number AGAFF 7433.

II. We declare that since the date the external audit services are being provided, during the development of the external audit and until the issuance of the External Audit Report dated February 19, 2019, as well as the dates communicated and the opinions required by the article 15 of the dispositions, we comply with the requirements included in article 4 and 5 of the dispositions, as well, the firm is aligned to articles 6, 9 and 10, in relation to article 14 of the dispositions.

III. We declare that the firm has documented evidence of the implementation of the quality control system included in article 9 of the dispositions and participates in a program of quality evaluation aligned to the requirements included in article 12 of the dispositions.

Hereby, I inform I have 5 years as independent external auditor and I have realized the audit of Infraestructura Energética Nova S.A.B. de C.V.'s basic consolidated financial statements, and Galaz, Yamazaki, Ruiz Urquiza, S.C. has provided external audit services for 22 years to the issuer.

Likewise, we are obliged to keep the information to comply with the requirements mentioned in this manifest, physically of trough images in digital format, in optical or magnetic media, for a minimum period of five years from the date the audit of the consolidated basic financial statements are concluded

Sincerely,

C.P.A. Omar Esquivel Romero
Representative and External Auditor
Partner at Galaz, Yamazakí, Ruíz Urquiza, S.C.

18 de febrero de 2019

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2018.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 20 de febrero de 2018, 24 de abril de 2018, el 23 de julio de 2018 y el 22 de octubre de 2018. Se tuvieron reuniones previas, a cada sesión, con los auditores externos y el auditor interno de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2018 fueron:

,

(i) Ratificar al C.P. y CIA Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así

February 18, 2019

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2018.

During the fiscal year in question, the Committee met 4 times, on February 20, 2018 April 24, 2018, on July 23, 2018 and on October 22, 2018. There were previous meetings with the external and internal auditors of IEnova to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2018 were:

(i) Ratify CPA and CIA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their

como los honorarios profesionales por sus servicios.

(iii) Recomendar la aprobación de los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2017, y primero segundo y tercer trimestre de 2018, para ser presentados al Consejo de Administración,

(iv) Con el propósito de fortalecer el funcionamiento del Comité de Auditoría y hacer más eficaz su labor, se decidió proceder a un acercamiento con el Comité de Auditoría de Sempra, con el propósito de compartir metodologías, experiencias y hallazgos; con ello, se ha buscado establecer un canal de comunicación eficiente, aprovechando su experiencia y recursos,

(v) Aprobar los planes de auditoria para los años 2018 y 2019,

(vi) Aprobar el plan de trabajo y calendario del Comité para 2019,

(vii) Con respecto a las Disposiciones de carácter general aplicables a las entidades y emisoras supervisadas por la comisión nacional bancaria y de valores que contraten servicios de auditoría externa de estados financieros básicos emitidas por esa Comisión mediante publicación en el Diario Oficial de la Federación el 26 de abril de 2018 (la "CUAE"). A continuación se describen los Servicios Adicionales prestados por el despacho Galaz, Yamazaki, Ruiz Urquiza, S.C., miembros de Deloitte Touche Tohmatsu LLP:

- Reportes de cumplimiento con el Servicio de Administración Tributaria

services.

(iii) To approve the financial statements and press releases for the year ended December 31, 2017 and the 1st, 2nd and 3rd quarters of 2018, presented to the Board of Directors,

(iv) In order to strengthen the Audit Committee and make it more efficient, it was decided to have a closer relationship with Sempra Energy´s Audit Committee, to share methodologies, experiences and findings; the above allowed a more effective communication and transfer of experience and resources,

(v) To approve the audit plans for the years 2018 and 2019,

(vi) To approve the committee´s work plan and calendar for 2019,

(vii) With respect to the General rules applicable to entities and issuers overviewed by the Mexican Securities and Exchange Commission, who hire financial statements external audit services; that were published on the Official Gazette of the Federation on April 26, 2018 ("CUAE"). Below a list of the Additional Services provided by the firm Galaz, Yamazaki, Ruiz Urquiza, S.C., members of Deloitte Touche Tohmatsu LLP:

- Statutory reports in compliance with the Tax Administration Service

-

- Proyectos financieros (Energizer y Thunder)

  Adicionalmente se tuvieron reuniones de trabajo para evaluar los impactos de la CUAE y asegurar su cumplimiento

(viii) Aprobar los reportes presentados por el auditor interno y externo,

(ix) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(x) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(xi) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(xii) Se revisó el impacto de nuevas normas contables y se hicieron modificaciones pertinentes a políticas contables relevantes,

(xiii) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía, así como las medidas de mitigación correspondientes.

(xiv) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

- Financial Projects (Energizer and Thunder)

  Additionally several meetings were held to assess CUAE impacts and ensure compliance with it

(viii) To approve the reports presented by the internal and external auditors,

(ix) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(x) The recommendations made by internal audit were implemented,

(xi) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(xii) Impact of new accounting regulations was assessed and relevant accounting policies were modified during the year,

(xiii) A follow up process was given to the risk management system of the Company,

(xiv) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2018 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2018 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité de Auditoría, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aarón Dychter Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

20 de febrero de 2018

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2017.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 21 de febrero de 2017, 24 de abril de 2017, el 25 de julio de 2017 y el 23 de octubre de 2017. Se tuvieron reuniones previas, a cada sesión, con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2017 fueron:

,

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 20, 2018

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2017.

During the fiscal year in question, the Committee met 4 times, on February 21, 2017 April 24, 2017, on July 25, 2017 and on October 23, 2017. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2017 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Recomendar la aprobación de los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2016, y primero segundo y tercer trimestre de 2017, para ser presentados al Consejo de Administración,

(iv) Aprobar los planes de auditoria para los años 2017 y 2018,

(v) Aprobar el plan de trabajo y calendario del Comité para 2018,

(vi) Aprobar los reportes presentados por el auditor interno y externo,

(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,

(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía, así como las medidas de mitigación correspondientes.

(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2016 and the 1st, 2nd and 3rd quarters of 2017, presented to the Board of Directors,

(iv) To approve the audit plans for the years 2017 and 2018,

(v) To approve the committee´s work plan and calendar for 2018,

(vi) To approve the reports presented by the internal and external auditors,

(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(viii) The recommendations made by internal audit were implemented,

(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(x) There were no relevant accounting policies modified during the year,

(xi) A follow up process was given to the risk management system of the Company,

(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2017 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo

It is hereby informed that, during the year 2017 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions

establecido en el artículo 28, fracción III, inciso f) de la LMV.

of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité de Auditoría, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dycther Poltolarek

Presidente del Comité de Auditoria
Infraestructura Energética Nova, S.A.B. de C.V

21 de febrero de 2017

Al Consejo de Administración de Infraestructura Energética Nova, S.A.B. de C.V.

Estimados señores:

Con fundamento en lo dispuesto en el artículo 43 de la Ley del Mercado de Valores ("**LMV**") y el artículo IV.1 del Estatuto del Comité de Auditoria de Infraestructura Energética Nova, S.A.B. de C.V. (la "**Sociedad**"), en mi carácter de Presidente del Comité de Auditoria de la Sociedad (el "**Comité**"), después de escuchar las opiniones de los directivos que estimé pertinentes, me permito rendir, en representación del Comité, el informe anual sobre las operaciones y actividades del Comité, durante el ejercicio social concluido el 31 de diciembre de 2016.

Durante el ejercicio social de referencia, el Comité sesionó en cuatro ocasiones, el 22 de febrero de 2016, 25 de abril de 2016, el 26 de julio de 2016 y el 25 de octubre de 2016. Se tuvieron reuniones previas con los auditores externos y el auditor interno de Sempra y de IEnova, para comentar mejoras y tendencias internacionales de la industria así como mejores prácticas contables. Las principales resoluciones adoptadas por el Comité en las sesiones celebradas en el ejercicio de 2016 fueron:

(i) Ratificar al C.P. Gerardo Higareda Rivero como auditor interno

(ii) Conocer y aprobar el nombramiento de la firma Deloitte /Galaz Yamazaki Ruiz Urquiza S.C. como auditor externo y al Sr. Omar Esquivel como el socio responsable de la auditoria, así como los honorarios profesionales por sus servicios.

February 21, 2017

To the Board of Directors of Infraestructura Energética Nova, S.A.B. de C.V.

Dear sirs:

Pursuant to Article 43 of the Mexican Stock Market Law ("**LMV**") and Article IV.1 of the Statute of the Audit Committee of Infraestructura Energética Nova, S.A.B. de C.V. (the "**Company**"), in my capacity as Chairman of the Audit Committee (the "**Committee**"), after hearing the opinion from the officers I deemed convenient, on behalf of the Committee, I hereby render the annual report on the operations and activities developed by the Committee during the fiscal year ended on December 31, 2016.

During the fiscal year in question, the Committee met 4 times, on February 22, 2016 April 25, 2016, on July 26, 2016 and on October 25, 2016. There were previous meetings with the external and internal auditors (Sempra and IEnova) to discuss improvements and international industry and accounting trends and best practices. The main resolutions adopted by the Committee in the meetings held in the year 2016 were:

(i) Ratify CPA Gerardo Higareda Rivero as internal auditor

(ii) To meet with and approve the appointment of "Deloitte" / Galaz, Yamazaki, Ruiz Urquiza, S.C., as external auditor and Mr. Omar Esquivel as the partner in charge, as well as the general terms of the compensation to be paid for their services.

(iii) Aprobar los estados financieros y comunicados de prensa correspondientes al año terminado el 31 de Diciembre de 2015, y primero segundo y tercer trimestre de 2016, presentados al Consejo de Administración,

(iv) Aprobar los planes de auditoria para los años 2016 y 2017,

(v) Aprobar el plan de trabajo y calendario del Comité para 2017,

(vi) Aprobar los reportes presentados por el auditor interno y externo,

(vii) Verificar que el sistema de control interno y auditoría interna de la sociedad y personas morales que ésta controla operan de manera adecuada,

(viii) Se implementaron las recomendaciones hechas por el área de Auditoría Interna,

(ix) Se determinó que tanto la firma de auditores externos y el socio que la representa llevaron a cabo sus funciones de manera adecuada,

(x) Durante el ejercicio no hubo modificaciones a políticas contables relevantes,

(xi) Se le dio seguimiento a la implementación del esquema de administración de riesgos de la compañía.

(xii) Con respecto a las denuncias recibidas del Comité de Ética, no hubo ninguna relevante que requiera de atención especial, aunque todos los casos son presentados en este Comité

(iii) To approve the financial statements and press releases for the year ended December 31, 2015 and the 1st, 2nd and 3rd quarters of 2016, presented to the Board of Directors,

(iv) To approve the audit plans for the years 2016 and 2017,

(v) To approve the committee´s work plan and calendar for 2017,

(vi) To approve the reports presented by the internal and external auditors,

(vii) To verify that the internal control system and internal audit department of the entity and its subsidiaries, operate adequately,

(viii) The recommendations made by internal audit were implemented,

(ix) It was concluded that both the external audit firm and its partner complied with their duties adequately,

(x) There were no relevant accounting policies modified during the year,

(xi) A follow up process was given to the risk management system of the Company,

(xii) There were no relevant denounces received from the Ethics Committee that required special attention however all cases are presented to this Committee

Se les informa que durante el ejercicio de 2016 no existieron observaciones respecto del desempeño de los directivos relevantes de la Sociedad, ni se otorgaron dispensas por el Consejo de Administración en términos de lo establecido en el artículo 28, fracción III, inciso f) de la LMV.

It is hereby informed that, during the year 2016 there were no observations regarding the performance of the senior management of the Company, and no waivers were granted by the Board of Directors in terms of the provisions of Article 28, paragraph III, subparagraph f) of the LMV.

En mi carácter de Presidente del Comité, en representación de dicho órgano, reitero a ustedes nuestro compromiso para llevar a cabo nuestras funciones en materia de auditoria en beneficio de una operación transparente y sustentable en términos de las disposiciones legales aplicables.

Este informe ha sido aprobado por unanimidad de los miembros del Comité.

In my capacity as Chairman of the Committee, on behalf of such Committee, I hereby reiterate our commitment to carry out our audit duties for the benefit of a transparent and sustainable operation in terms of the applicable laws.

This report has been unanimously approved by the members of the Committee.

Atentamente, / Sincerely,

Aaron Dychter Poltolarek

Presidente del Comité de Auditoria

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